



Alabama Legislative Joint Hearing

*Condition of the State General Fund
and Education Trust Fund (FY2018)*

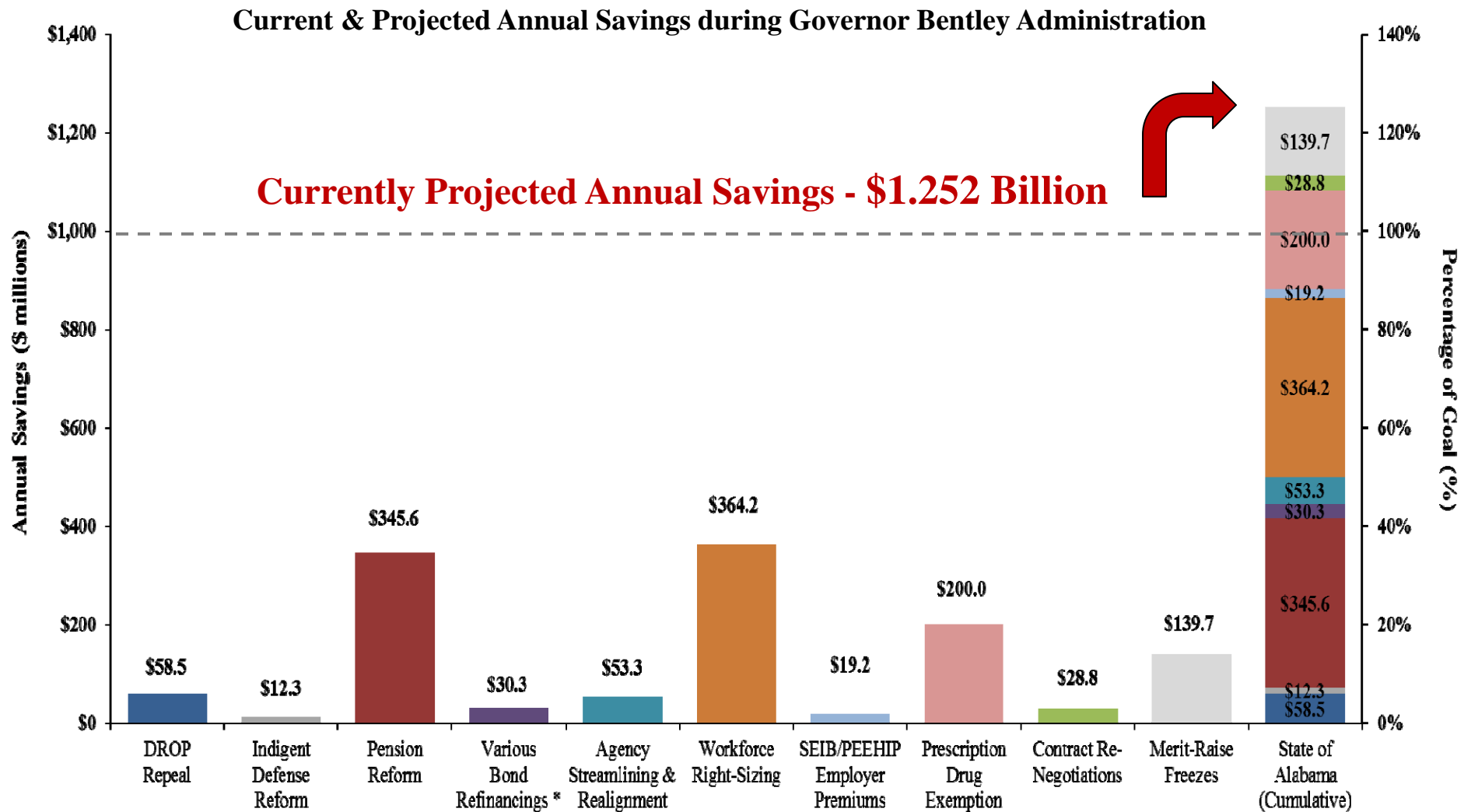


Clinton P. Carter

**STATE OF
ALABAMA**

Department of Finance

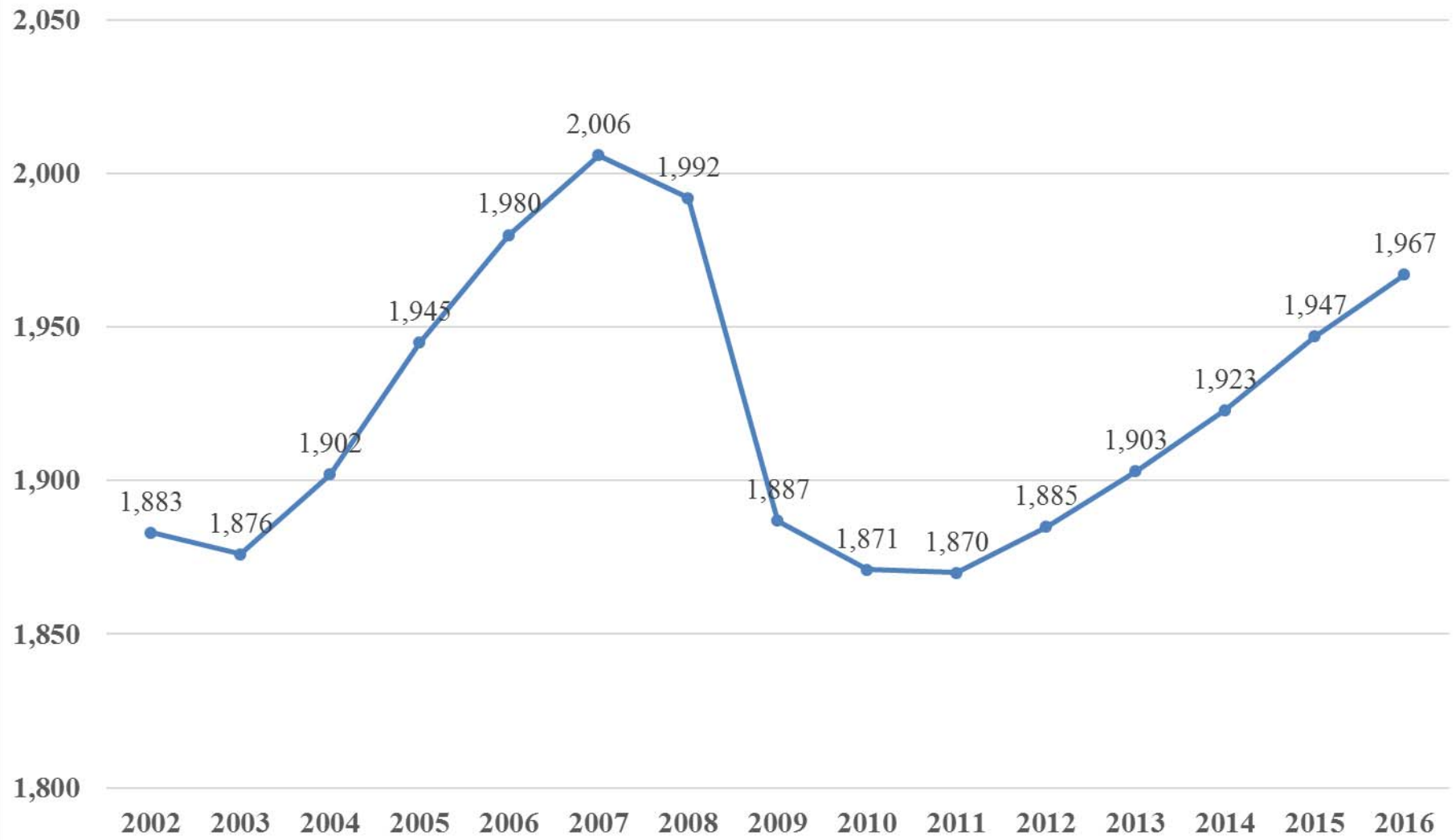
Road to a \$Billion in Savings – as of 12/31/2016



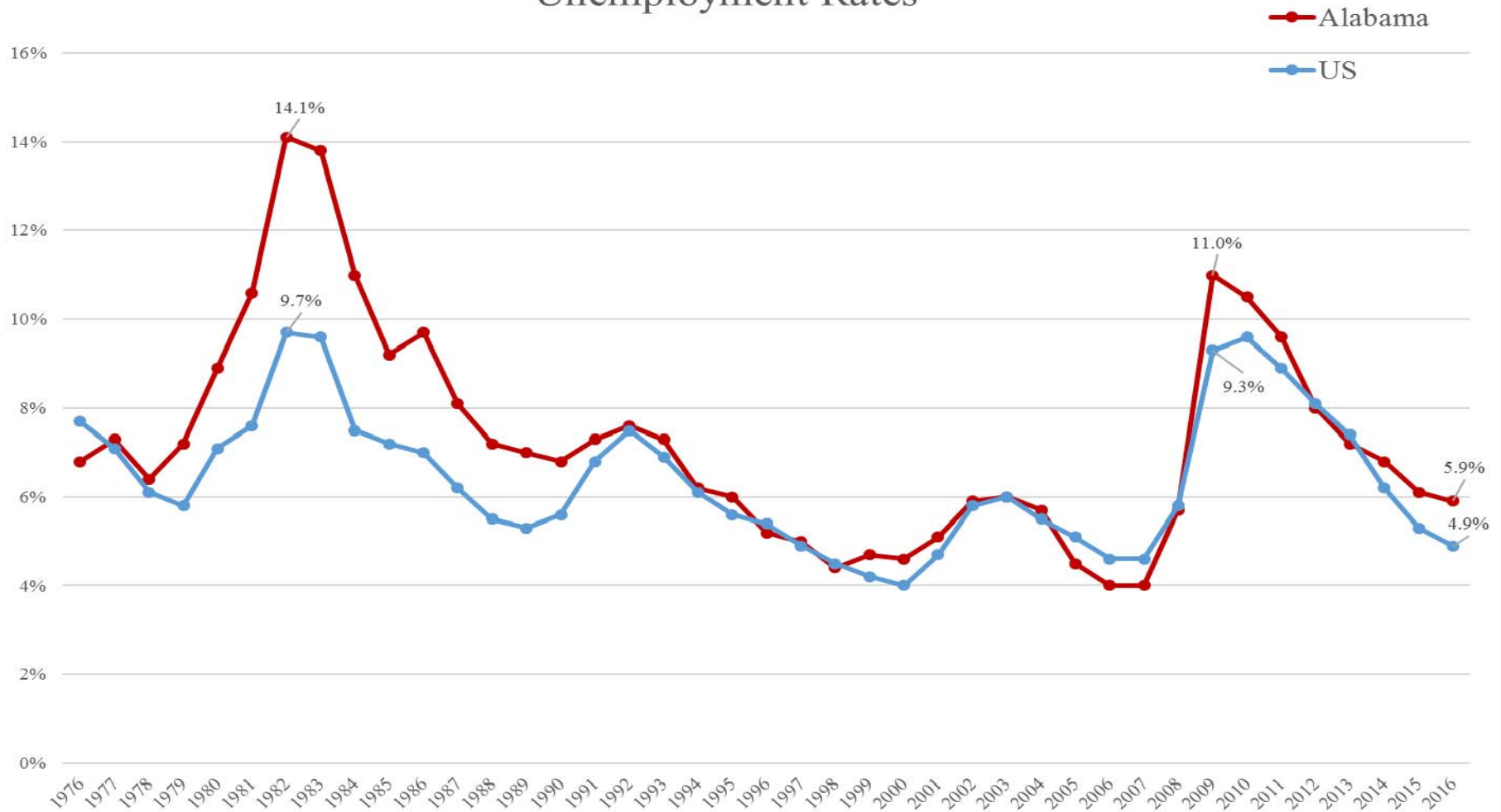
* Includes pending deals. \$339.5 million of total savings. For consistency, average annual savings calculation assumes all bond savings equally spread over remaining life of bonds (range of maturity schedules are 5-17 years).

Alabama's Total Employment

(in Thousands)



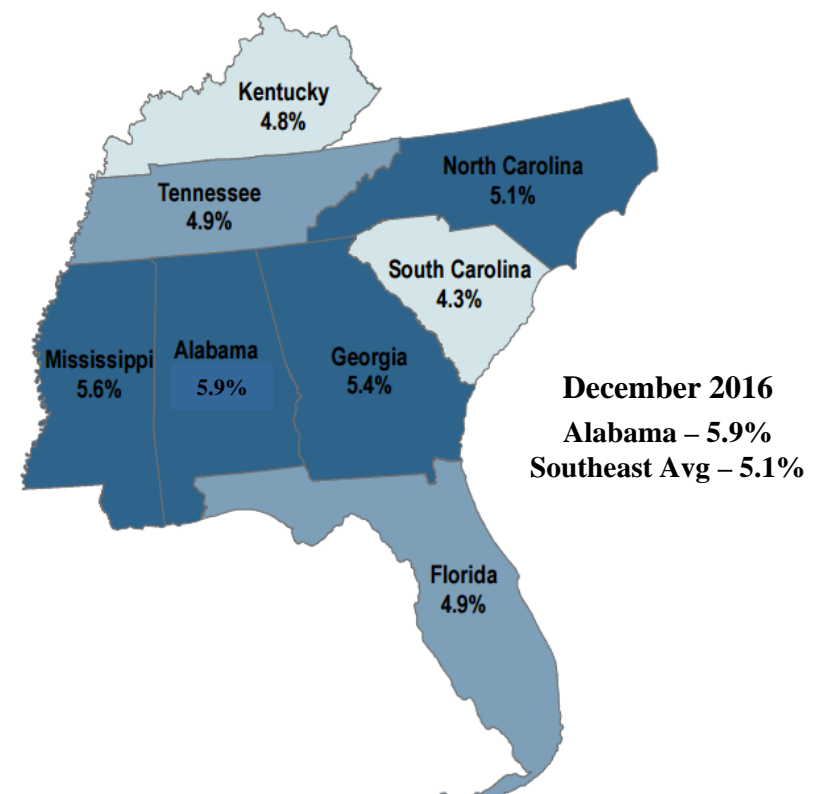
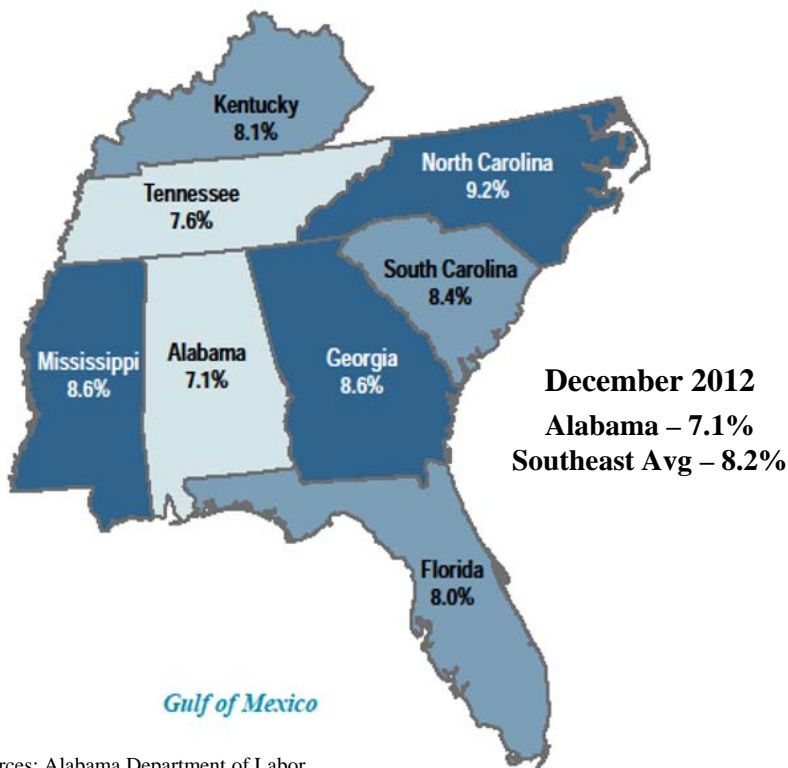
Unemployment Rates



- Unemployment rate has dropped from the highs of 2009, yet still lags the rest of the U.S.
 - 5.9% December Preliminary (not adjusted for seasonality)

Unemployment – Southeastern State Comparison

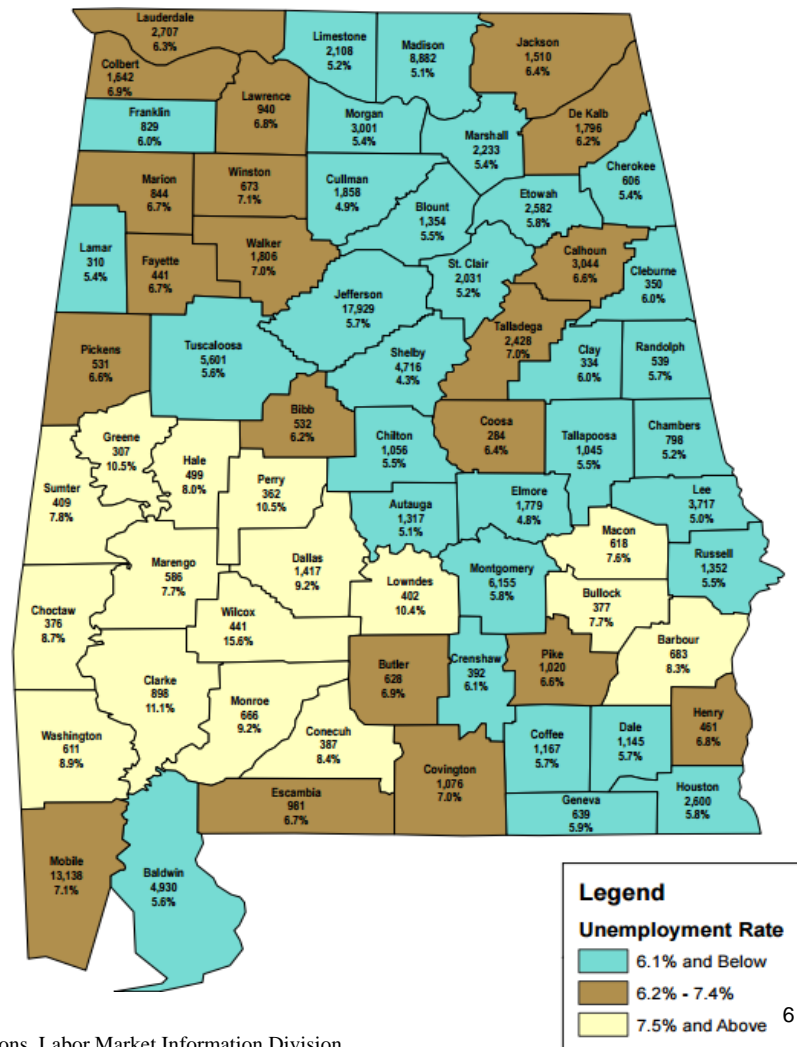
- Unemployment has dropped from the highs of 2009, but has shown recent upticks across most markets in 2014
 - In 2012, Alabama's unemployment rate of 7.1% was the lowest in the Southeast and well ahead of the regional average of 8.2%
 - Since then, other states have caught up and even pulled ahead...



Alabama's Unemployment Rate

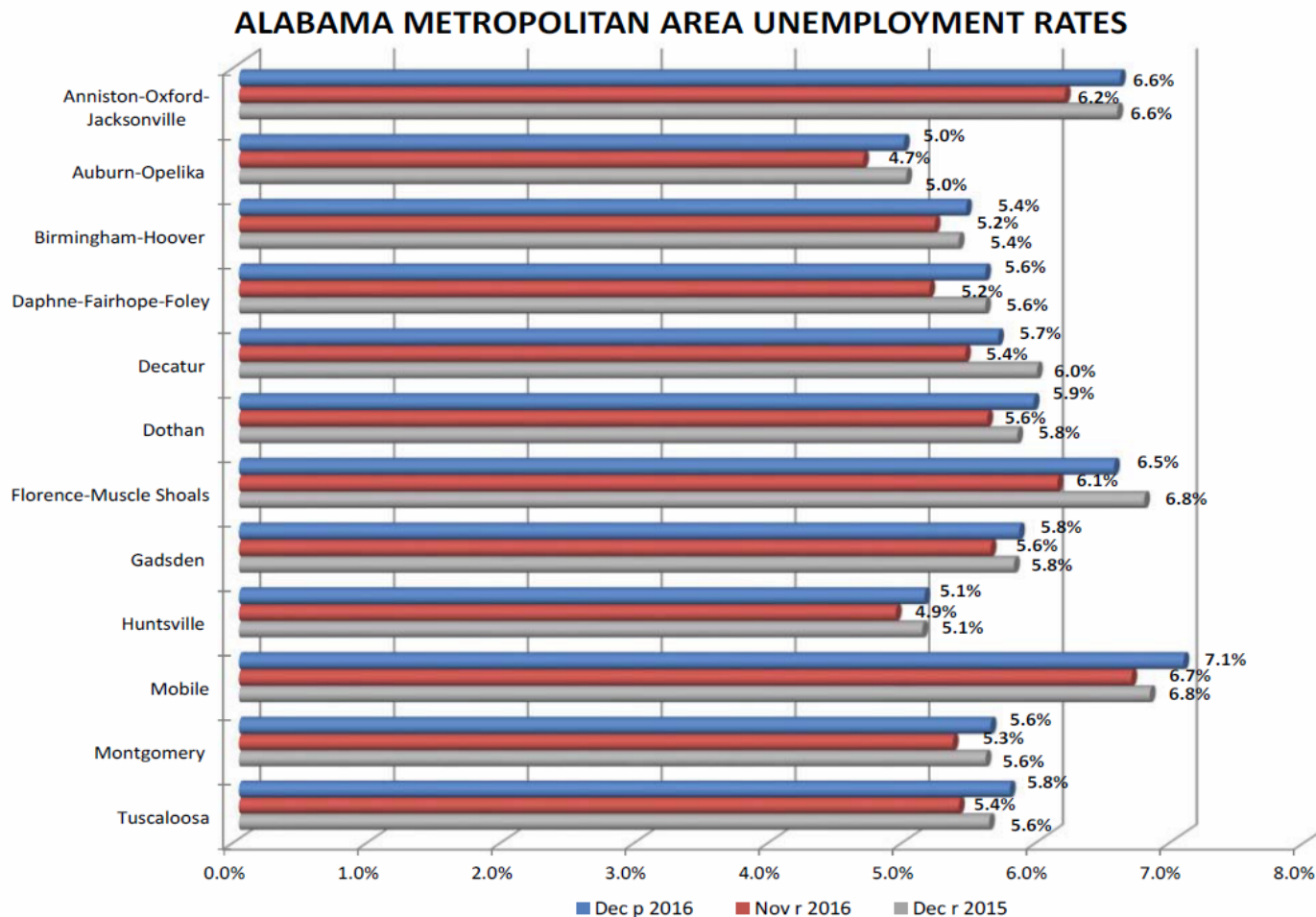
- Statewide Unemployment:
 - Civilian Labor Force – 2,184,837
 - Unemployed – 128,874
 - Unemployment Rate
 - December – 5.9%
 - August – 5.6%
 - April 2016 – 5.4%
- Alabama vs. Rest of the U.S.
 - Historically, 1.0% above the U.S.
 - Average over previous 40 years (1977-2016)
 - Alabama – 5.9%
 - U.S. Average – 4.9%

December 2016 – 5.9%
(not seasonally adjusted)



Alabama's Unemployment Rate – Then and Now

- Auburn-Opelika (4.7%), Huntsville (4.9%) and the Birmingham Metro (5.2%) continue to set the pace for the rest of the State...

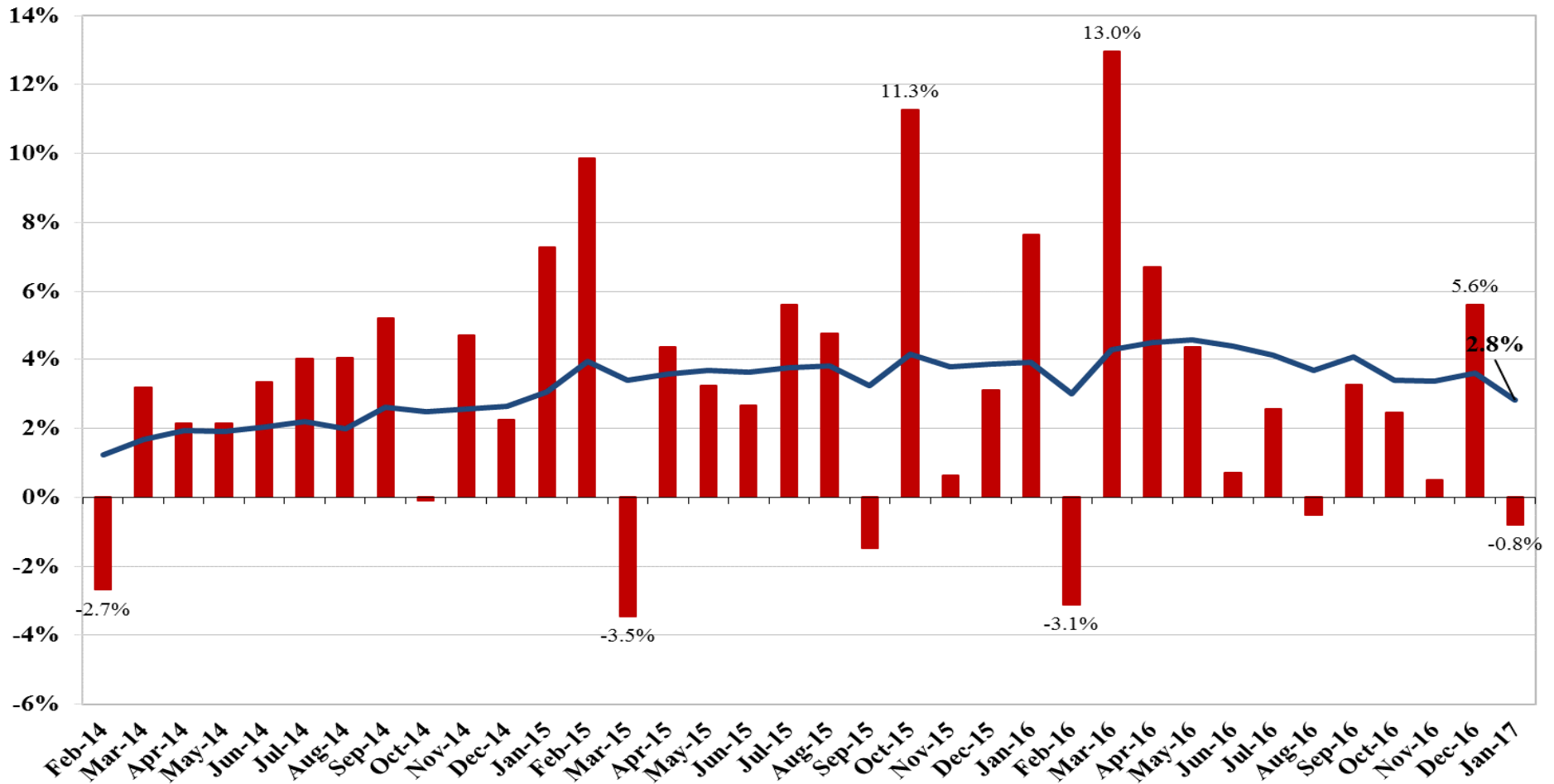


Alabama Economy – Economic Index

- 3 recessions over the last 30 years, with the Great Recession (2008-2011) being the most prolonged in U.S. history and the deepest since the Great Depression
 - (2006-2008) Alabama's economy outpaced that of the broader U.S. economy with significantly lower unemployment rates
 - (2009-2010) Alabama's unemployment rate spiked as we lost industrial and manufacturing-related jobs
- While Alabama clearly has risen from the trough, the recovery hasn't been as swift as other States...

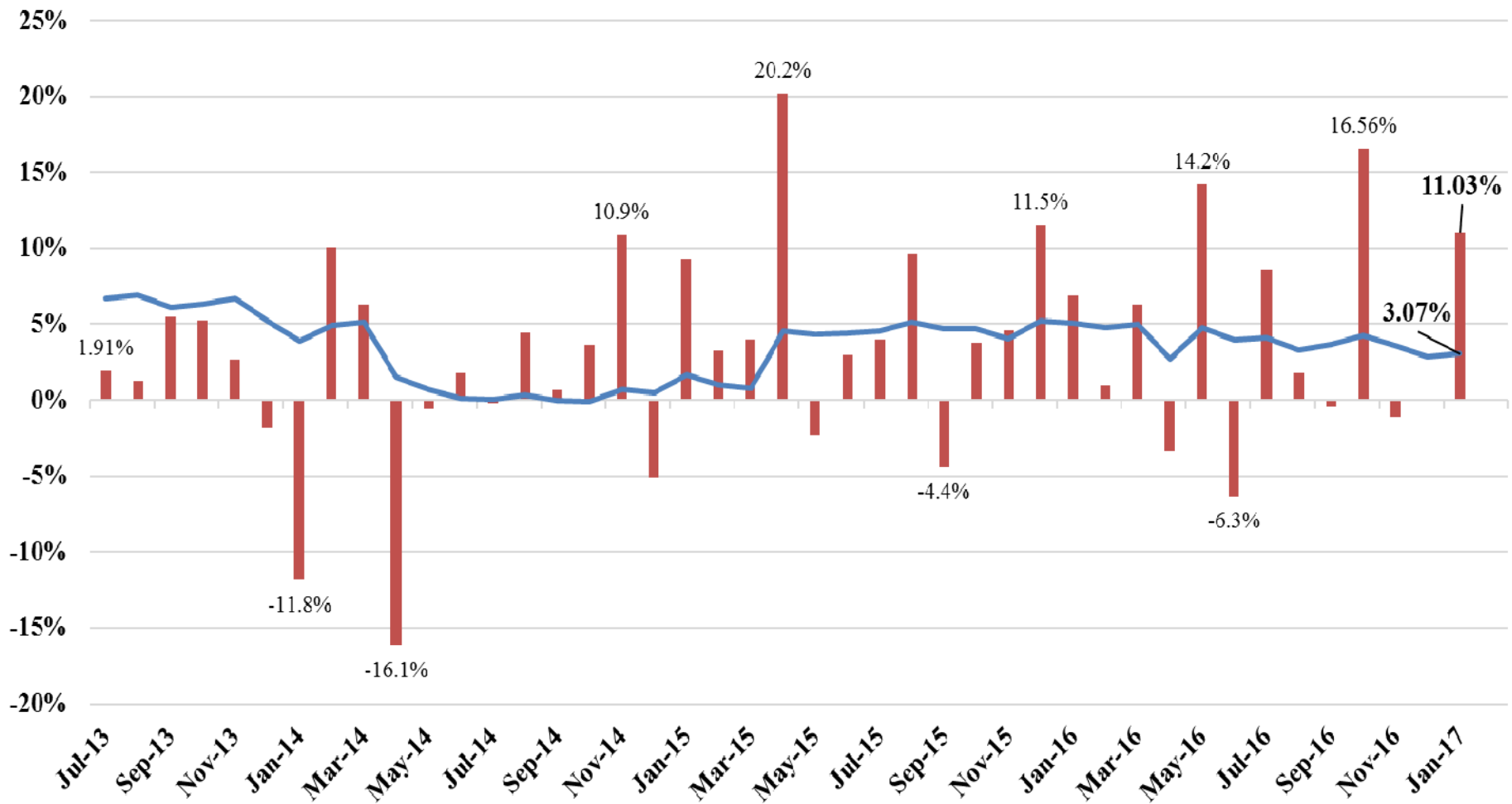


Gross Sales Tax (Monthly % Change Over Prior Year)



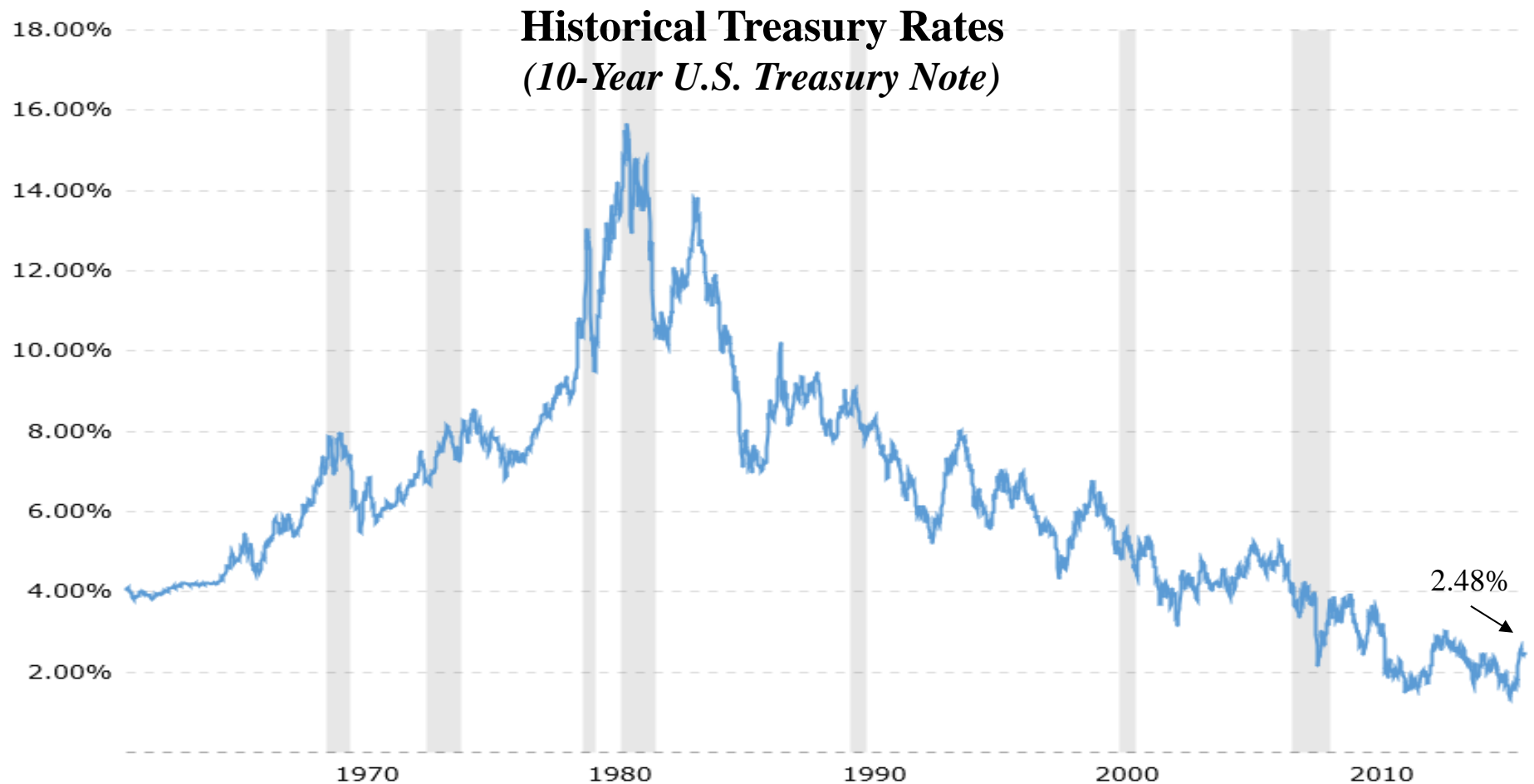
- Year-over-year comparison, 9 of the last 12 months have seen substantial increases in estimated sales tax collections
 - Rolling 12-month average (2.83%)

Gross Individual Income Tax (Monthly % Change Over Prior Year)



- Year-over-year comparison, Jan '17 up 11.03% over year estimated collections
 - Rolling 12-month average (3.07%)

Interest Rates



- Even with the recent uptick in rates (post-Election), long-terms rates remain near all-time lows
 - State Credit Rating (AA/Aa1) typically prices 100-200bps above the 10-yr Treasury¹

Recent Treasury Rates (10-Year U.S. Treasury Note)



- Recent disruption after the November Presidential election results
 - ~60bps increase (10-yr Treasury now at 2.5%)

ETF Rainy Day Account

- Original ETF Rainy Day Transfer was required to be repaid within 6 years
- Balance Paid in Full
 - Rolling Reserve Act allowed for the full repayment in FY2015

Education Trust Fund (ETF)

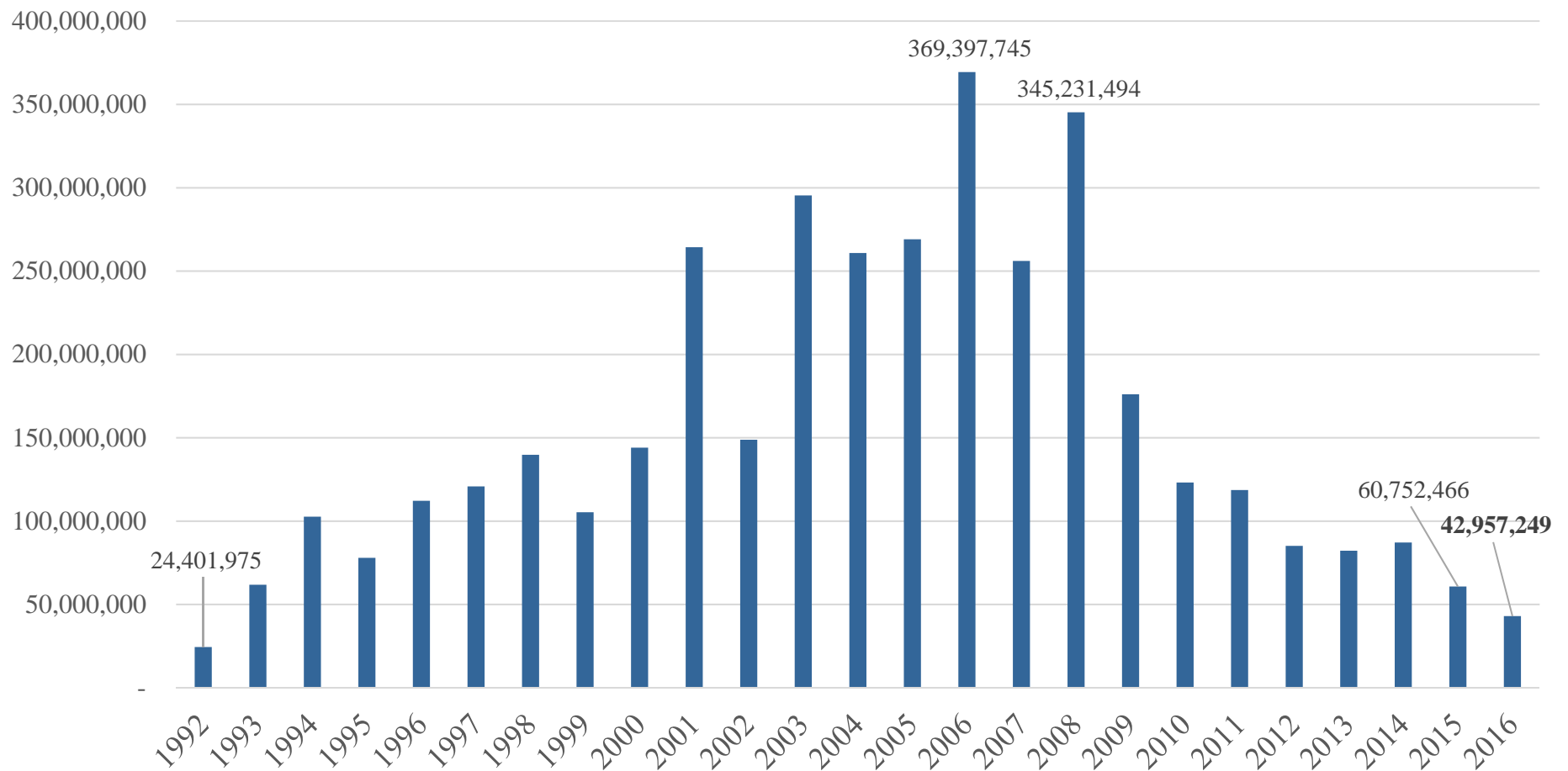
| | Borrowing | Repayment | Balance Due | Notes |
|--------------|------------------------|----------------------|-----------------|-----------------------------------|
| FY 2009 | (\$437,390,828) | | (\$437,390,828) | ETF Rainy Day Transfer (6-yr) |
| FY 2010 | | | (\$437,390,828) | |
| FY 2011 | | | (\$437,390,828) | |
| FY 2012 | | \$14,412,984 | (\$422,977,844) | ETF Repayment (Rolling Reserve) |
| FY 2013 | | | (\$422,977,844) | |
| FY 2014 | | \$349,555,638 | (\$73,422,206) | ETF Repayment (Rolling Reserve) |
| FY 2015 | | \$73,422,206 | \$0 | ETF Repayment (Rolling Reserve) |
| FY 2016 | | | | |
| FY 2017 | | | | |
| TOTAL | (\$437,390,828) | \$437,390,828 | \$0 | << Balance Remaining |

GF Rainy Day Account & ATF Loan

- GF Rainy Day was fully repaid on December 15, 2016
 - Original GF Rainy Day Transfer was required to be repaid within 10 years (by FY2020)
 - \$161.6 million
- AL Trust Fund Loan still outstanding
 - \$184.0 million outstanding
 - \$13.5 million annual payments beginning in FY2020

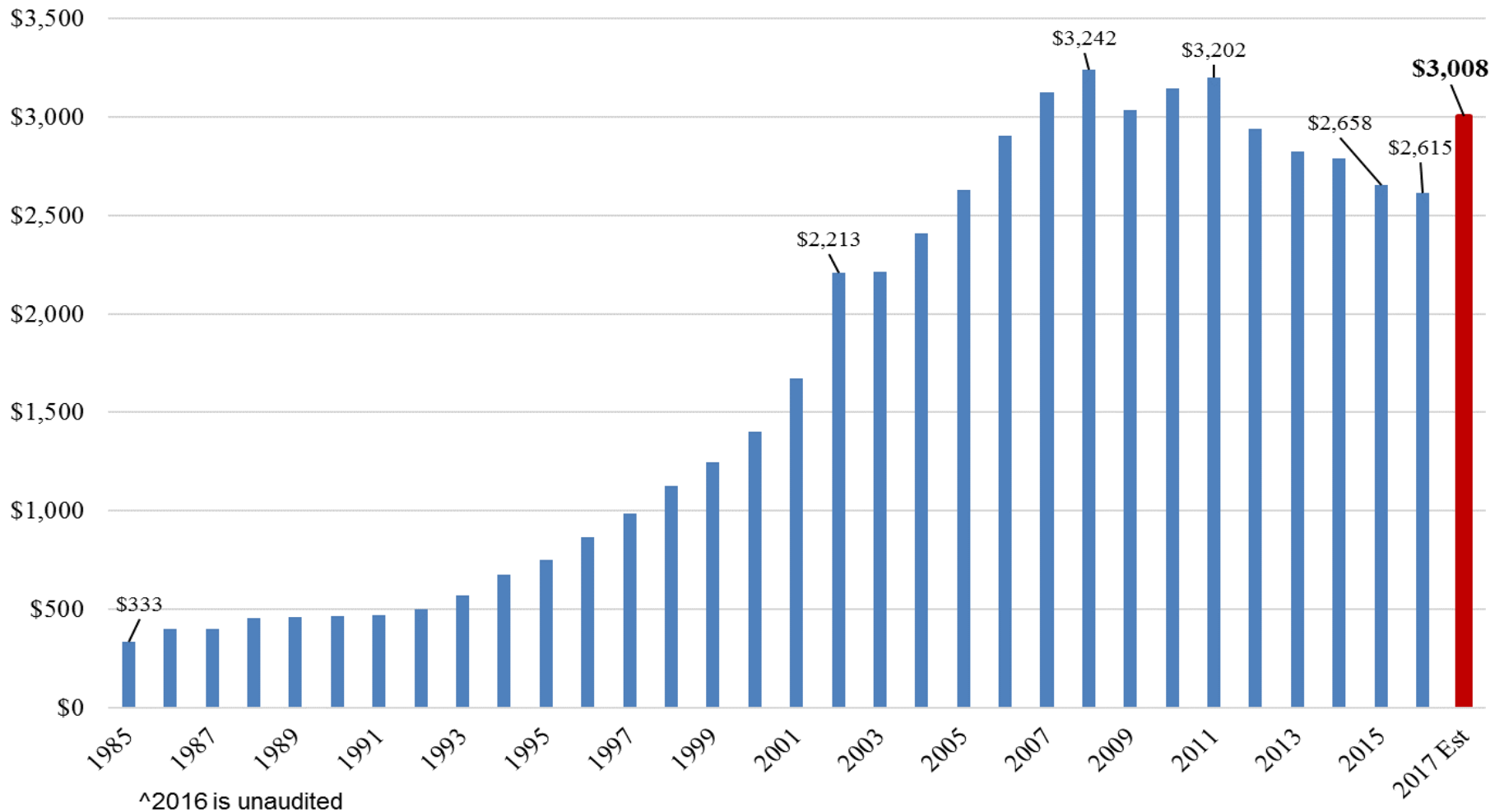
| General Fund (GF) | | | |
|-------------------|------------------------|----------------------|--|
| | Borrowing | Repayment | Balance Due Notes |
| FY 2009 | | | |
| FY 2010 | (\$161,565,874) | | (\$161,565,874) GF Rainy Day Transfer (10-yr) |
| FY 2011 | | | (\$161,565,874) |
| FY 2012 | | | (\$161,565,874) |
| FY 2013 | (\$145,796,943) | | (\$307,362,817) GF Alabama Trust Fund Transfer |
| FY 2014 | (\$145,796,943) | \$5,000,000 | (\$448,159,759) GF Alabama Trust Fund Transfer |
| FY 2015 | (\$145,796,943) | \$10,000,000 | (\$583,956,702) GF Alabama Trust Fund Transfer |
| FY 2016 | | | (\$583,956,702) |
| FY 2017 | | \$400,000,000 | (\$183,956,702) << Balance Remaining |
| FY 2018 | | | (\$183,956,702) |
| FY 2019 | | | (\$183,956,702) |
| FY 2020 | | \$13,500,000 | (\$170,456,702) |
| FY 2021 | | \$13,500,000 | (\$156,956,702) |
| FY 2022 | | \$13,500,000 | (\$143,456,702) |
| FY 2023 | | \$13,500,000 | (\$129,956,702) |
| FY 2024 | | \$13,500,000 | (\$116,456,702) |
| FY 2025 | | \$13,500,000 | (\$102,956,702) |
| FY 2026 | | \$13,500,000 | (\$89,456,702) |
| FY 2027 | | \$13,500,000 | (\$75,956,702) |
| FY 2028 | | \$13,500,000 | (\$62,456,702) |
| FY 2029 | | \$13,500,000 | (\$48,956,702) |
| FY 2030 | | \$13,500,000 | (\$35,456,702) |
| FY 2031 | | \$13,500,000 | (\$21,956,702) |
| FY 2032 | | \$13,500,000 | (\$8,456,702) |
| FY 2033 | | \$8,456,703 | \$0 |
| TOTAL | (\$598,956,703) | \$598,956,703 | \$0 |

Alabama Trust Fund Royalty Receipts



- WTI close \$53.78/barrel on 2/6/17
 - Introduction of hydraulic fracturing “fracking” has changed the landscape internationally for energy prices

Alabama Trust Fund Corpus (in Millions)



- Rainy Day Loan Fund repayment (BP Proceeds) in 2016 added \$400.0 million
 - 10.61% Total Annual Return in 2016 (8.03% average annual return since 2009)

Debt Outstanding

- **General Obligation Bonds**

- Various Economic Development Bonds (2005-2016) **\$646.3 million** (\$977 million authorized)

- **Revenue Bonds**

- ***Primary Government:***

- \$3.943 Billion**

- Public School & College Authority
 - State Port Authority
 - Incentives Finance Authority
 - Federal Aid Highway Finance Authority (GARVEE)
 - Public Healthcare Authority
 - Building Renovation Finance Authority
 - 21st Century Authority
 - Mental Health Authority

- ***Component Units:***

- \$4.154 Billion**

- Higher Education
 - Water Pollution Control Authority
 - Housing Finance Authority

Total Indebtedness

\$8.743 Billion (as of 9/30/16)

Debt Outstanding

- Where does Alabama rank vs. other states?
 - 9th – Debt Per Resident (\$1,806.40 per resident)
 - 12th – as a % of State GDP (4.01% of total GDP)
 - 22nd – Debt Outstanding (\$8.743 Billion)

| Per Capita | Population (millions) | Total State Debt | Rank |
|-----------------|-----------------------|------------------|------|
| Tennessee | 6.7 | \$878.5 | 1 |
| Nebraska | 1.9 | \$1,089.8 | 2 |
| Nevada | 3 | \$1,169.0 | 3 |
| Georgia | 10.4 | \$1,351.8 | 4 |
| Wyoming | 0.6 | \$1,487.5 | 5 |
| Texas | 28.3 | \$1,535.0 | 6 |
| North Carolina | 10.3 | \$1,552.1 | 7 |
| Florida | 21 | \$1,643.2 | 8 |
| Alabama | 4.9 | \$1,806.4 | 9 |
| Oklahoma | 3.9 | \$1,999.2 | 10 |
| Idaho | 1.7 | \$2,105.2 | 11 |
| Arizona | 7 | \$2,127.8 | 12 |
| Iowa | 3.1 | \$2,160.5 | 13 |
| Arkansas | 3 | \$2,162.9 | 14 |
| Kansas | 2.9 | \$2,295.2 | 15 |
| Mississippi | 3 | \$2,414.9 | 16 |
| Utah | 3.1 | \$2,567.7 | 17 |
| North Dakota | 0.8 | \$2,624.6 | 18 |
| Indiana | 6.7 | \$2,806.2 | 19 |
| New Mexico | 2.1 | \$2,932.6 | 20 |
| Montana | 1.1 | \$3,073.6 | 21 |
| Ohio | 11.6 | \$3,078.9 | 22 |
| Missouri | 6.1 | \$3,105.9 | 23 |
| South Carolina | 5 | \$3,256.1 | 24 |
| Virginia | 8.5 | \$3,286.6 | 25 |
| South Dakota | 0.9 | \$3,315.8 | 26 |
| Colorado | 5.6 | \$3,332.8 | 27 |
| Kentucky | 4.4 | \$3,346.3 | 28 |
| Michigan | 9.9 | \$3,527.0 | 29 |
| Minnesota | 5.6 | \$3,528.8 | 30 |
| District of | 0.7 | \$3,615.5 | 31 |
| Wisconsin | 5.8 | \$3,650.4 | 32 |
| Oregon | 4.2 | \$3,875.3 | 33 |
| Pennsylvania | 12.8 | \$3,905.9 | 34 |
| Louisiana | 4.7 | \$4,250.1 | 35 |
| Maine | 1.3 | \$4,366.0 | 36 |
| California | 39.5 | \$4,608.5 | 37 |
| Maryland | 6 | \$4,616.8 | 38 |
| Delaware | 1 | \$4,873.5 | 39 |
| Washington | 7.4 | \$5,127.7 | 40 |
| West Virginia | 1.8 | \$5,166.1 | 41 |
| Vermont | 0.6 | \$5,267.7 | 42 |
| New Hampshire | 1.3 | \$5,287.6 | 43 |
| Illinois | 12.8 | \$5,698.9 | 44 |
| Hawaii | 1.4 | \$6,171.1 | 45 |
| Alaska | 0.7 | \$7,161.8 | 46 |
| New York | 19.7 | \$7,173.6 | 47 |
| New Jersey | 9 | \$8,027.7 | 48 |
| Rhode Island | 1.1 | \$8,781.3 | 49 |
| Connecticut | 3.6 | \$10,092.7 | 50 |
| Massachusetts | 6.8 | \$10,622.3 | 51 |
| All States Avg. | 6.38 | \$3,802.0 | |

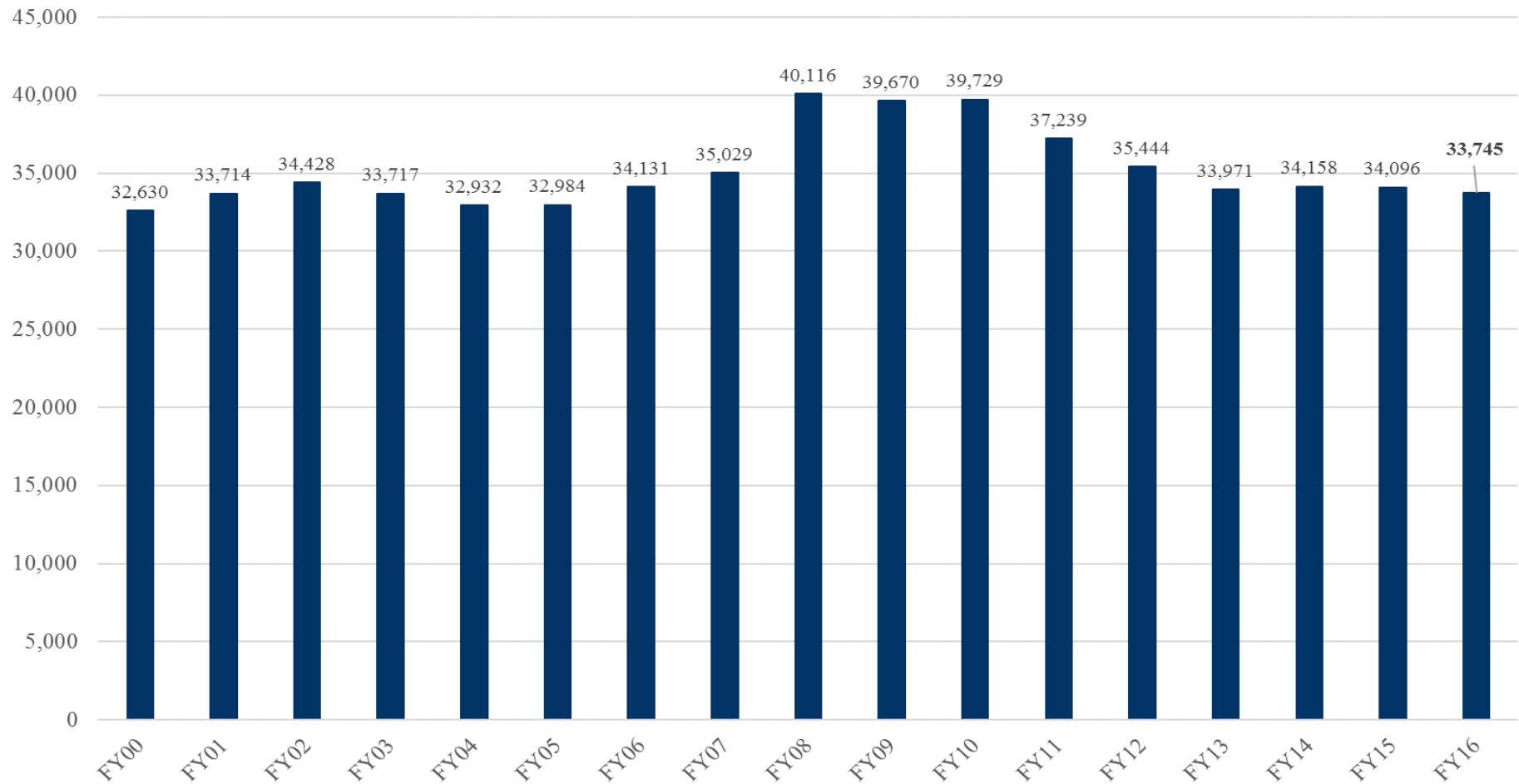
| % of GDP | Gross State Product | Total State Debt | Rank |
|-----------------|---------------------|------------------|------|
| Nebraska | \$63,582.5 | 1.71% | 1 |
| Tennessee | \$50,983.7 | 1.72% | 2 |
| District of | \$193,397.0 | 1.87% | 3 |
| Nevada | \$51,633.0 | 2.26% | 4 |
| Wyoming | \$65,867.3 | 2.26% | 4 |
| Georgia | \$51,933.4 | 2.60% | 6 |
| Texas | \$57,964.7 | 2.65% | 7 |
| North Carolina | \$53,275.0 | 2.91% | 8 |
| Florida | \$46,194.7 | 3.56% | 9 |
| North Dakota | \$71,811.6 | 3.65% | 10 |
| Iowa | \$58,700.7 | 3.68% | 11 |
| Alabama | \$45,054.9 | 4.01% | 12 |
| Kansas | \$53,368.5 | 4.30% | 13 |
| Oklahoma | \$45,780.3 | 4.37% | 14 |
| Arizona | \$44,250.5 | 4.81% | 15 |
| Arkansas | \$43,516.8 | 4.97% | 16 |
| Utah | \$51,402.3 | 5.00% | 17 |
| Indiana | \$54,526.7 | 5.15% | 18 |
| Idaho | \$40,755.3 | 5.17% | 19 |
| Virginia | \$61,224.5 | 5.37% | 20 |
| Minnesota | \$64,838.5 | 5.44% | 21 |
| Ohio | \$56,176.0 | 5.48% | 22 |
| Colorado | \$59,925.4 | 5.56% | 23 |
| South Dakota | \$56,923.1 | 5.83% | 24 |
| Missouri | \$51,698.7 | 6.01% | 25 |
| Mississippi | \$38,062.2 | 6.34% | 26 |
| Delaware | \$76,608.1 | 6.36% | 27 |
| Wisconsin | \$57,231.5 | 6.38% | 28 |
| New Mexico | \$45,156.8 | 6.49% | 29 |
| Montana | \$46,641.7 | 6.59% | 30 |
| California | \$68,399.9 | 6.74% | 31 |
| Pennsylvania | \$57,505.4 | 6.79% | 32 |
| Oregon | \$56,935.7 | 6.81% | 33 |
| Michigan | \$50,897.5 | 6.93% | 34 |
| Maryland | \$65,069.2 | 7.10% | 35 |
| Kentucky | \$46,962.6 | 7.13% | 36 |
| South Carolina | \$43,036.4 | 7.57% | 37 |
| Washington | \$65,236.4 | 7.86% | 38 |
| Louisiana | \$53,580.1 | 7.93% | 39 |
| Illinois | \$65,914.3 | 8.65% | 40 |
| New York | \$78,891.2 | 9.09% | 41 |
| New Hampshire | \$58,118.7 | 9.10% | 42 |
| Maine | \$45,399.7 | 9.62% | 43 |
| Vermont | \$52,013.9 | 10.13% | 44 |
| Hawaii | \$60,398.3 | 10.22% | 45 |
| Alaska | \$68,709.1 | 10.42% | 46 |
| New Jersey | \$68,713.6 | 11.68% | 47 |
| West Virginia | \$41,883.9 | 12.33% | 48 |
| Connecticut | \$77,673.0 | 12.99% | 49 |
| Massachusetts | \$75,700.9 | 14.03% | 50 |
| Rhode Island | \$58,084.3 | 15.12% | 51 |
| All States Avg. | \$59,168.8 | 6.49% | |

| Total Debt Outstanding | Total State Debt (\$Billions) | Gross Product (\$Billions) | Real State Growth | Rank |
|------------------------|-------------------------------|----------------------------|-------------------|------|
| Wyoming | \$0.9 | \$38.5 | 2.0% | 1 |
| North Dakota | \$2.0 | \$54.5 | 1.1% | 2 |
| Nebraska | \$2.1 | \$122.1 | 2.5% | 3 |
| District of | \$2.5 | \$133.9 | 2.7% | 4 |
| South Dakota | \$2.9 | \$49.7 | 2.4% | 5 |
| Montana | \$3.2 | \$49.1 | 3.0% | 6 |
| Vermont | \$3.3 | \$32.4 | 1.9% | 7 |
| Nevada | \$3.5 | \$154.8 | 2.8% | 8 |
| Idaho | \$3.6 | \$69.9 | 2.5% | 9 |
| Delaware | \$4.7 | \$73.6 | 2.5% | 10 |
| Alaska | \$5.3 | \$51.3 | 1.6% | 11 |
| Maine | \$5.8 | \$60.5 | 1.9% | 12 |
| Tennessee | \$5.9 | \$342.0 | 2.5% | 13 |
| New Mexico | \$6.1 | \$94.0 | 2.1% | 14 |
| Arkansas | \$6.5 | \$130.5 | 2.3% | 15 |
| Kansas | \$6.7 | \$155.2 | 1.9% | 16 |
| Iowa | \$6.8 | \$184.8 | 2.1% | 17 |
| New Hampshire | \$7.1 | \$77.9 | 2.1% | 18 |
| Mississippi | \$7.2 | \$113.7 | 2.1% | 19 |
| Oklahoma | \$7.9 | \$180.4 | 2.3% | 20 |
| Utah | \$8.0 | \$160.0 | 3.0% | 21 |
| Alabama | \$8.7 | \$219.5 | 2.4% | 22 |
| Hawaii | \$8.8 | \$86.5 | 2.4% | 23 |
| Rhode Island | \$9.3 | \$61.4 | 2.2% | 24 |
| West Virginia | \$9.4 | \$76.3 | 1.8% | 25 |
| Georgia | \$14.1 | \$541.3 | 2.7% | 26 |
| Kentucky | \$14.9 | \$209.0 | 2.2% | 27 |
| Arizona | \$15.0 | \$311.8 | 2.1% | 28 |
| North Carolina | \$15.9 | \$546.6 | 2.8% | 29 |
| Oregon | \$16.1 | \$237.1 | 3.3% | 30 |
| South Carolina | \$16.4 | \$216.4 | 2.5% | 31 |
| Indiana | \$18.7 | \$362.8 | 2.4% | 32 |
| Colorado | \$18.8 | \$337.6 | 3.1% | 33 |
| Missouri | \$19.0 | \$315.9 | 2.3% | 34 |
| Minnesota | \$19.6 | \$360.4 | 2.6% | 35 |
| Louisiana | \$20.0 | \$251.5 | 2.4% | 36 |
| Wisconsin | \$21.1 | \$331.3 | 2.4% | 37 |
| Virginia | \$27.8 | \$517.7 | 2.3% | 38 |
| Maryland | \$27.9 | \$392.9 | 2.3% | 39 |
| Florida | \$34.5 | \$969.5 | 2.9% | 40 |
| Michigan | \$35.1 | \$505.9 | 2.3% | 41 |
| Ohio | \$35.8 | \$653.0 | 2.4% | 42 |
| Connecticut | \$36.0 | \$277.2 | 2.0% | 43 |
| Washington | \$38.0 | \$483.9 | 2.8% | 44 |
| Texas | \$43.4 | \$1,640.5 | 3.2% | 45 |
| Pennsylvania | \$49.9 | \$734.7 | 2.4% | 46 |
| New Jersey | \$71.9 | \$615.2 | 2.4% | 47 |
| Illinois | \$72.7 | \$841.3 | 2.6% | 48 |
| Massachusetts | \$72.7 | \$517.8 | 2.5% | 48 |
| New York | \$141.6 | \$1,557.6 | 2.3% | 50 |
| California | \$182.1 | \$2,702.3 | 3.3% | 51 |
| All States Avg. | \$23.9 | \$376.5 | 2.4% | |

Statewide Debt Management

- State's *Division of Debt Management and Capital Planning* oversees the issuance of all General Obligation and certain Special Revenue bonds of the State of Alabama
- State maintains a highly skilled operating team with decades of institutional experience
 - Full-time staff of 3 professionals (all CPAs)
 - All Public Employees (and subject to State Ethics Laws)
 - 13 various State Authorities with approximately \$5.0 Billion of outstanding debt
- Combined Pricing Power and Fee Schedules
 - Greater negotiation power on fees and expenses (investment bankers, bond lawyers, issuance costs)
- Potential Credit-Rating Piggyback
 - Credit Rating – State of Alabama is AA/Aa1 (S&P, Moody's)
 - GARVEE – 1st AAA rating in State History
- Speed to Close – Typical transaction takes approximately 2 months
- Laundry List of Services
 - Financial Advisory
 - Municipal Bond Issuance (Taxable and Tax-Free)
 - Continuing disclosure requirement of the Federal Security and Exchange Commission
 - Monitoring of expenditures to determine the allowable and legal compliance
 - Analysis of revenue streams for debt service
 - Point of contact with the Internal Revenue Service (IRS) on audits of bonds

Number of State Employees (All Employees)



- -14.2% reduction in the workforce since Dec. 31, 2010 = \$364.2 million savings
 - State employees as of Dec. 31, 2010 – 39,577; as of December 31, 2016 – 33,745

RSA – Investment Performance – Then (2013)...

RETIREMENT SYSTEMS OF ALABAMA

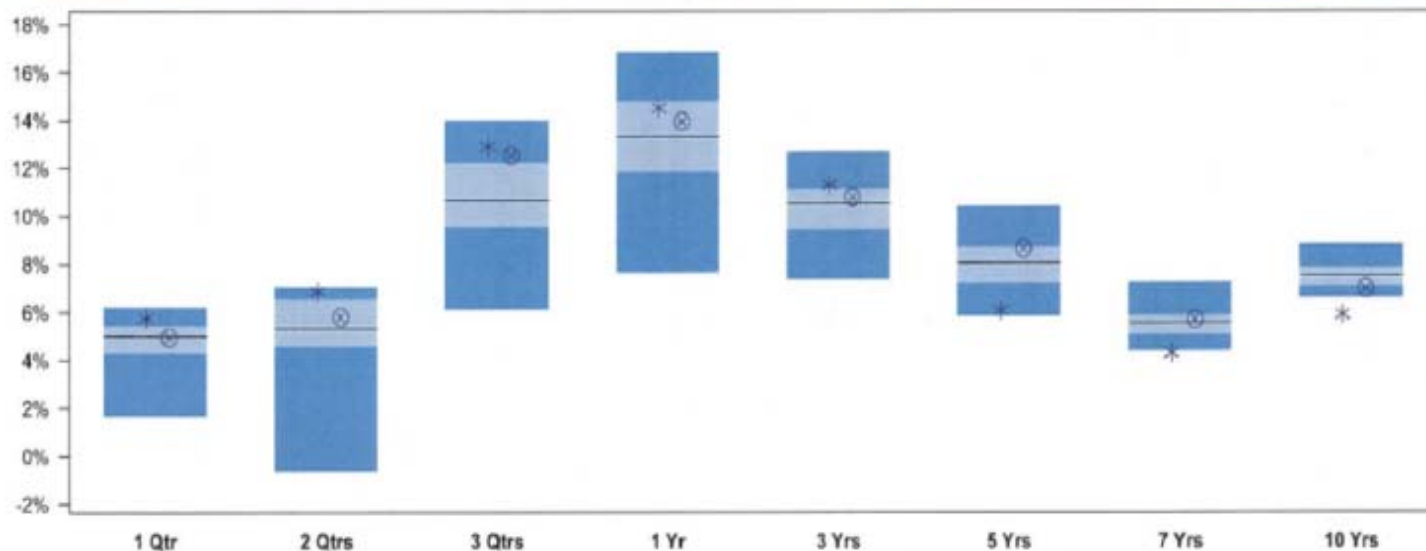
Public Funds (DB) > \$1 Billion (SSE)

PERIOD ENDING September 30, 2013



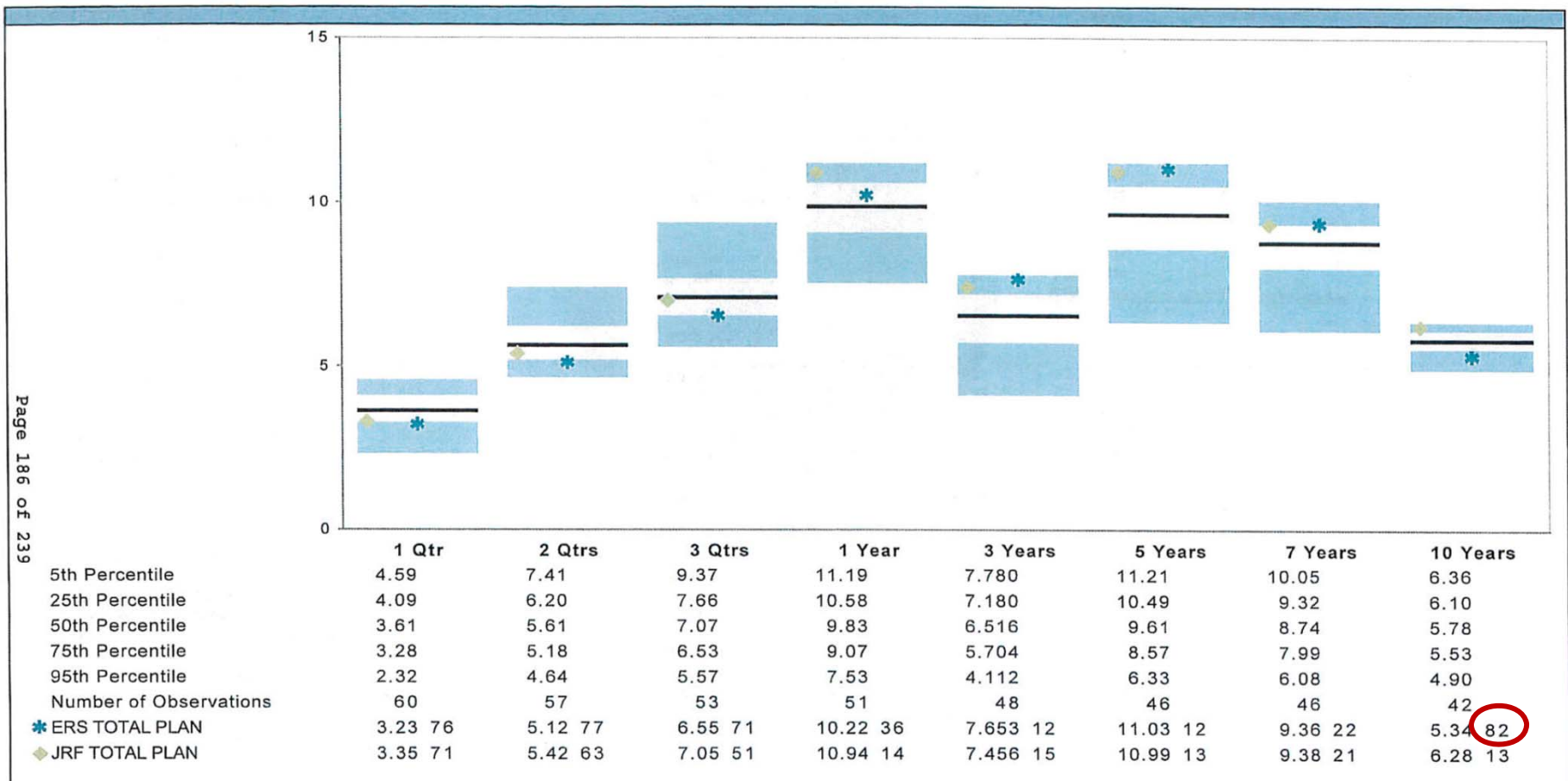
STATE STREET

TOTAL RETURN

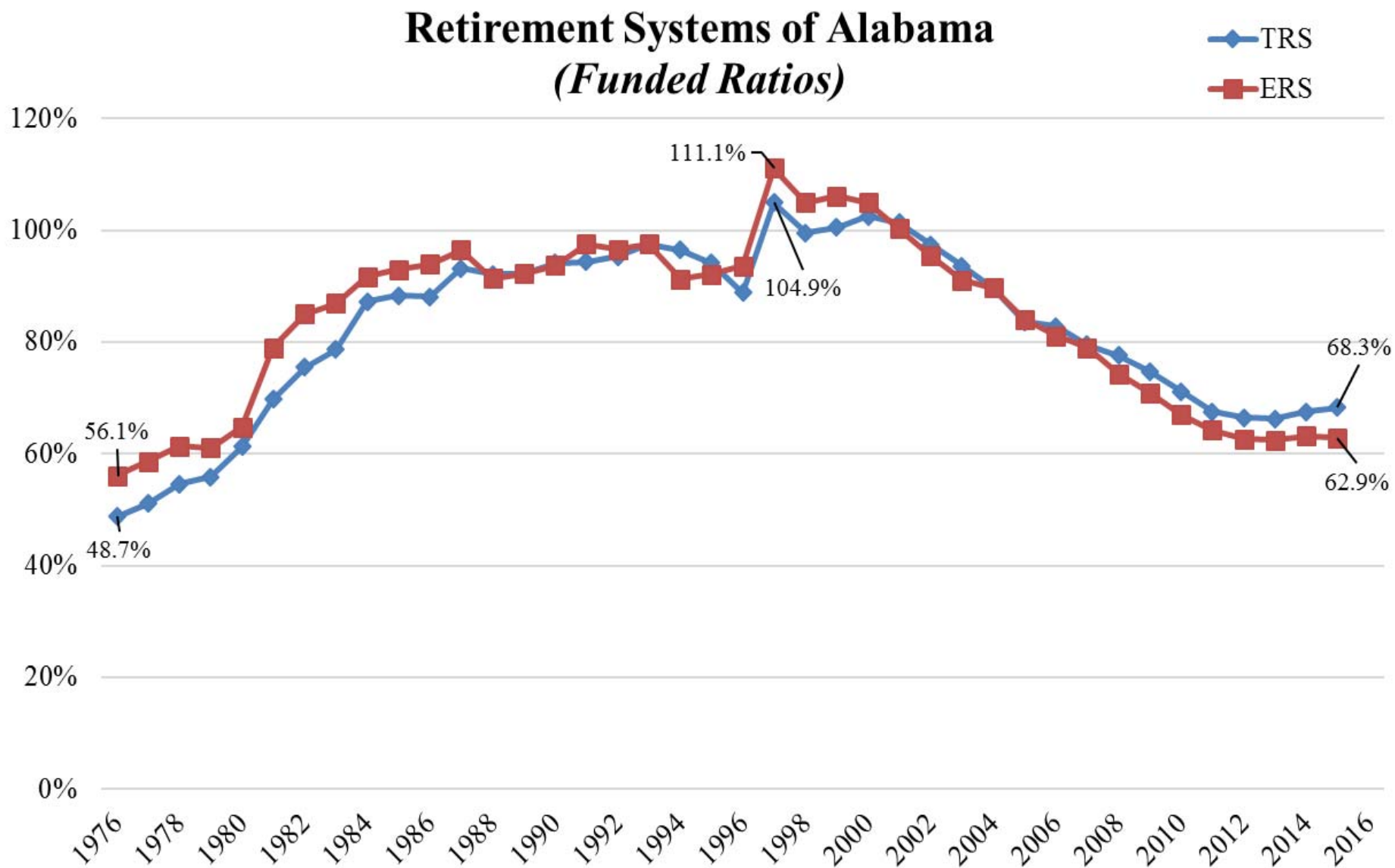


| | 1 Qtr | 2 Qtrs | 3 Qtrs | 1 Yr | 3 Yrs | 5 Yrs | 7 Yrs | 10 Yrs |
|------------------|---------|---------|----------|----------|----------|---------|---------|---------|
| 5th Percentile | 6.22 | 7.06 | 14.01 | 16.83 | 12.69 | 10.42 | 7.24 | 8.82 |
| 25th Percentile | 5.44 | 6.59 | 12.24 | 14.82 | 11.17 | 8.75 | 5.89 | 7.85 |
| 50th Percentile | 5.02 | 5.33 | 10.67 | 13.35 | 10.54 | 8.05 | 5.56 | 7.51 |
| 75th Percentile | 4.30 | 4.58 | 9.57 | 11.88 | 9.45 | 7.21 | 5.06 | 7.08 |
| 95th Percentile | 1.69 | -0.60 | 6.13 | 7.67 | 7.37 | 5.84 | 4.39 | 6.60 |
| No. of Obs | 68 | 67 | 66 | 66 | 66 | 65 | 64 | 55 |
| * ERS TOTAL PLAN | 5.85 19 | 6.96 15 | 13.01 18 | 14.60 28 | 11.40 23 | 6.17 94 | 4.37 96 | 5.97 99 |
| o JRF TOTAL PLAN | 5.04 50 | 5.90 32 | 12.63 19 | 14.05 36 | 10.89 34 | 8.74 26 | 5.78 33 | 7.06 77 |

RSA – Investment Performance – Now (2016)...



| State Pension Fund | RSA Annual Fund Performance History | | | | | | | | | | | | | | | | Average Period Returns | | |
|--------------------|-------------------------------------|--------|-------|-------|-------|------|-------|---------|---------|------|------|-------|-------|-------|------|-------|------------------------|-------|-------|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 5-yr | 10-yr | 15-yr |
| Alabama ERS | (6.4%) | (9.3%) | 16.5% | 10.1% | 11.0% | 8.4% | 17.9% | (15.2%) | (10.0%) | 8.5% | 2.2% | 18.0% | 14.6% | 12.0% | 1.1% | 10.2% | 11.2% | 5.9% | 6.4% |
| Alabama Teachers | (6.1%) | (7.8%) | 16.0% | 10.7% | 11.3% | 8.8% | 17.5% | (15.4%) | (7.9%) | 8.4% | 1.8% | 18.3% | 14.9% | 12.1% | 1.0% | 10.4% | 11.4% | 6.1% | 6.7% |



RSA Funding Example – TRS Employee

- **Employee Contribution (TRS):**

- Tier 1 – 7.5%
- Tier 2 – 6.0%

- **Employer Portion (TRS):**

- Tier 1 – 12.24%
- Tier 2 – 11.01%

- **Total Contribution (TRS):**

- Tier 1 – 19.74%
- Tier 2 – 17.01%

- **Components of the Employer Portion:**

- Normal Rate – together with the employer contribution equals the true cost of the pension (stand-alone)
- Unfunded Actuarial Accrued Liability (UAAL) – repayment of any funding shortfall (usually 30 years)
- Death Benefit – special pre-retirement death benefit
- Term Life – life insurance benefit
- Administration –RSA administrative expenses born by the fund

CONTRIBUTIONS FOR FISCAL YEAR ENDING

Tier I (first hired prior to January 1, 2013)

Employer contribution rate

| | | |
|--------------------------------------|---------------|---------------|
| Normal | 2.43% | 2.00% |
| Unfunded actuarial accrued liability | 9.45 | 9.65 |
| Death benefit | 0.02 | 0.02 |
| Term life | 0.01 | 0.01 |
| Administration | 0.33 | 0.33 |
| Total | 12.24% | 12.01% |

Tier II (first hired on or after January 1, 2013)

Employer contribution rate

| | | |
|--------------------------------------|---------------|---------------|
| Normal | 1.20% | 0.81% |
| Unfunded actuarial accrued liability | 9.45 | 9.65 |
| Death benefit | 0.02 | 0.02 |
| Term life | 0.01 | 0.01 |
| Administration | 0.33 | 0.33 |
| Total | 11.01% | 10.82% |

September 30, 2018

September 30, 2017

RSA Funding Example – TRS Employee

- **Employer Portion (TRS):**

- Tier 1 – 12.24%
- Tier 2 – 11.01%

- **Contribution Attributable to UAAL:**

- 9.45% of Employer Portion / 12.24% Total Contribution
- 9.45% / 12.24% = 77.2% of total employer contribution

- **\$962.3 Million – FY16 Contribution to RSA**

- TRS – \$745.5 million x 77.2% = \$575.5 million
- ERS – \$199.4 million x 89.0% = \$177.5 million
- JRF – \$17.4 million x 62.0% = \$ 10.8 million

\$763.8 million

- **\$763.8 Million – FY16 Contribution to the Unfunded Liability**

State Employer Contributions

by Fund (2000 – 2018E)

| State of Alabama - Employer Contributions to RSA | | | | |
|--|---------|---------|--------|---------|
| (\$ millions) | TRS | ERS | JRF | Total |
| 2018E | \$777.8 | \$196.8 | \$18.3 | \$992.9 |
| 2017E | 765.5 | 195.4 | 17.8 | 978.7 |
| 2016 | 745.5 | 199.4 | 17.4 | 962.3 |
| 2015 | 734.0 | 184.9 | 15.1 | 934.0 |
| 2014 | 725.6 | 163.6 | 15.7 | 904.9 |
| 2013 | 624.6 | 141.1 | 13.8 | 779.5 |
| 2012 | 629.1 | 136.1 | 10.7 | 775.9 |
| 2011 | 776.7 | 187.3 | 10.9 | 974.9 |
| 2010 | 769.5 | 191.4 | 10.8 | 971.7 |
| 2009 | 749.9 | 192.5 | 10.3 | 952.7 |
| 2008 | 714.1 | 160.6 | 9.9 | 884.6 |
| 2007 | 529.2 | 115.2 | 9.3 | 653.7 |
| 2006 | 422.8 | 91.0 | 8.9 | 522.7 |
| 2005 | 341.4 | 68.7 | 8.9 | 419.0 |
| 2004 | 303.3 | 52.2 | 9.0 | 364.5 |
| 2003 | 236.4 | 48.5 | 8.6 | 293.5 |
| 2002 | 264.1 | 46.0 | 8.2 | 318.3 |
| 2001 | 277.7 | 49.1 | 7.5 | 334.3 |
| 2000 | 265.9 | 43.4 | 5.6 | 314.9 |

Source: RSA, 2017 and 2018 are estimates provided by RSA

Pension “Partial Lump-Sum” Buyout

- **Current Pension Options**
 - **Return of Contributions (plus 4% Interest)**
 - Members may elect to receive all of their previously contributed employee contributions plus 4% interest
 - Cash-out recipients are ineligible for SEIB/PEEHIP health insurance
 - **Option 1 (Lifetime Annuity)**
 - Lifetime monthly pension, slightly reduced from Option 1. However, if the retiree dies prior to receiving annuity payments exceeding his or her account balance, the remaining annuity balance will be paid to a beneficiary
 - The annuity balance, if any, is the amount of unused contributions and interest remaining in the retiree’s account
 - **Option 2 (Lifetime Annuity with 50% Survivor Benefit)**
 - Lifetime monthly pension, slightly reduced from Option 1 to allow for 50% survivor benefit
 - Only one beneficiary may be designated (at retirement). Benefits are based on the variance in age between the retiree and the beneficiary. Once the member retires, he or she cannot change their beneficiary unless death or divorce
 - **Option 3 (Lifetime Annuity with 100% Survivor Benefit)**
 - Lifetime monthly pension, further reduced from Option 2 to allow for 100% survivor benefit
 - **Option 4 (Customized)**
 - Rarely used option allows members to select a customized monthly benefit equivalent to the regular retirement benefit
 - **Option 5 (Partial Lump-Sum Buyout)**
 - Option for retirees to forego a portion of their pension in favor of receiving a one-time, lump-sum cash payment
 - Retirees may “redeem” up to 50% of their future income stream, receive the cash equivalent in today’s dollars
 - Lump-sum payment would be equal to the actuarially-determined present value of Option 1 (Lifetime Annuity):
 - State Bond Issuance – Dollar for dollar payout (no penalty or discount beyond present value determination), savings based on difference between RSA actuarial cost (8.0%) and debt interest rate (~4.0%)

Pension “Partial Lump-Sum” Buyout

- Paying the lump-sum?

- **State Debt Issuance** – State issues bonds to pay the lump-sum amount, State’s Annual Required Contribution (ARC) automatically lowers, State then recoups its cost through reduced ARC payments (maintains 100% ARC funding)

- Previous years, State ARC payments to RSA have been:

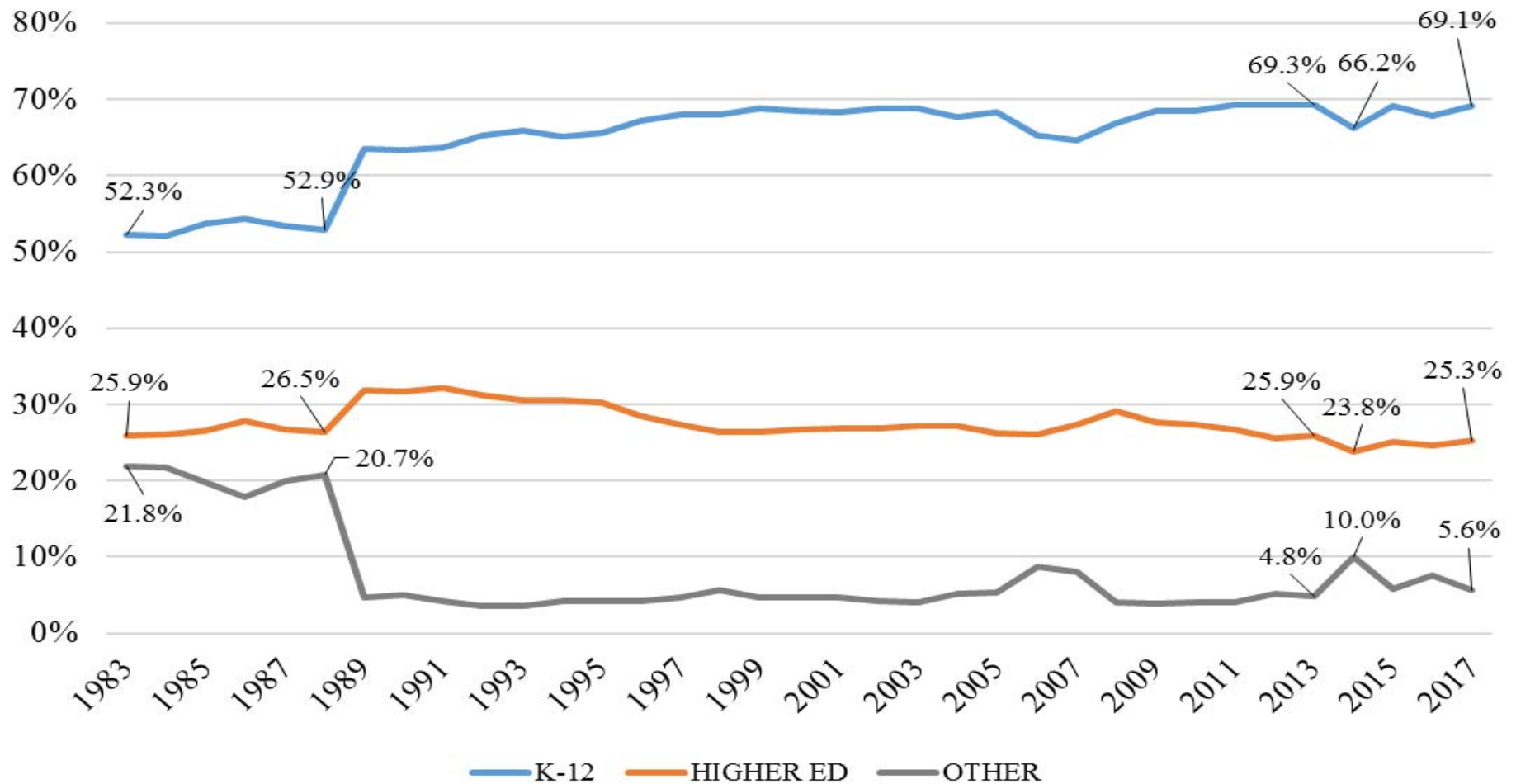
State Employer Contributions
by Fund (2000 – 2018E)

- Historically-low interest rates, could likely issue 30-year debt in 3.75%-4.25% range
- Allows RSA to keep investments fully-deployed, creates a “reverse-arbitrage” play
 - 8.0% liability is immediately extinguished and replaced with a 30-year debt at ~4.00%
- ARC payments currently being made annually to RSA would be reduced dollar-for-dollar by bond payment amount
 - Likely would require an earmarked revenue pledge from the General Fund or Education Trust Fund, that would be 100% recouped through lowered ARC payments

| State of Alabama - Employer Contributions to RSA | | | | |
|--|---------|---------|--------|---------|
| (\$ millions) | TRS | ERS | JRF | Total |
| 2018E | \$777.8 | \$196.8 | \$18.3 | \$992.9 |
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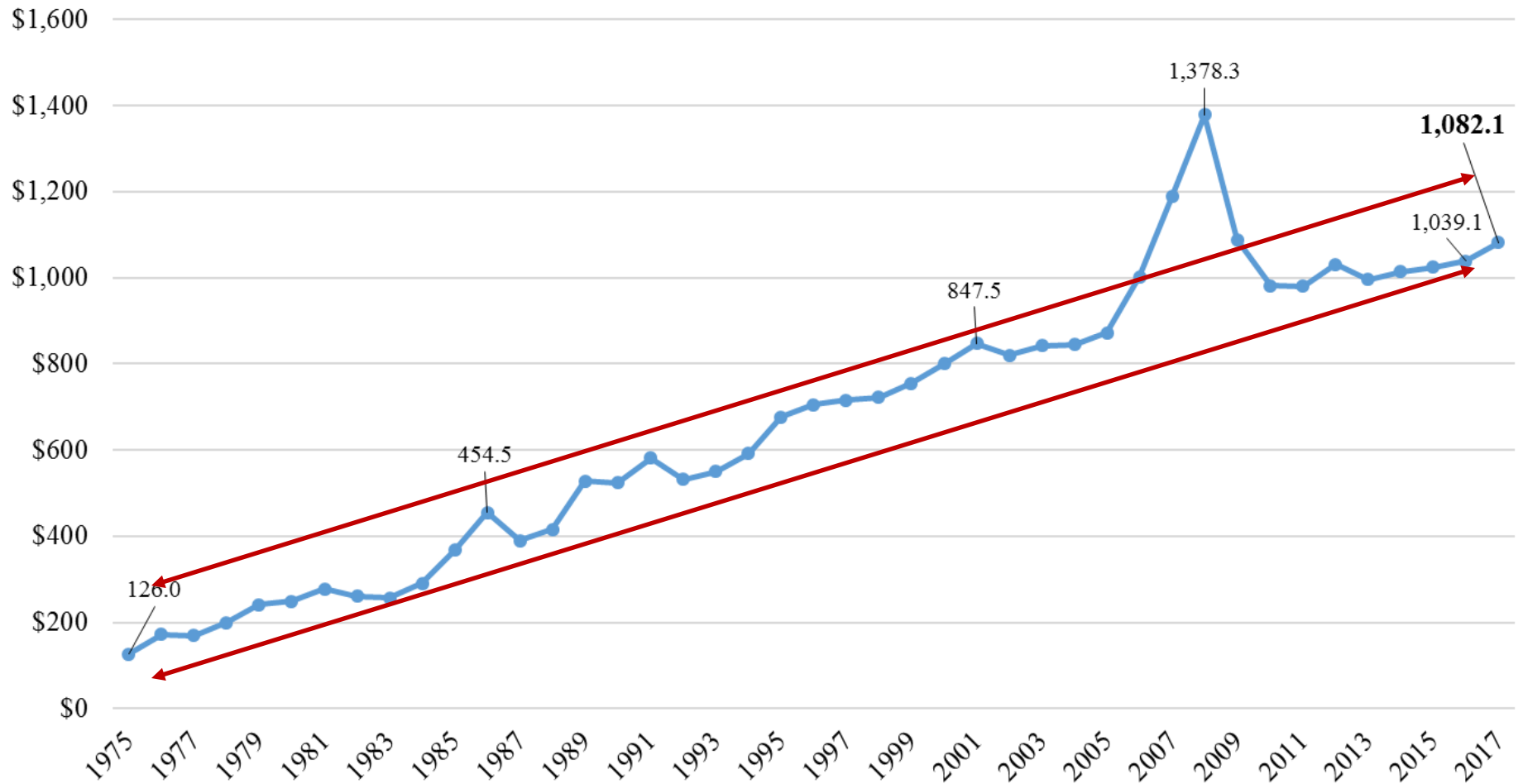
Source: RSA, 2017 and 2018 are estimates provided by RSA

ETF Split Percentages



- K-12 up in FY18 to 69.1% (vs. 67.8% in FY17)
 - Higher Ed also up to 25.3% (vs. 24.7% in FY17), decrease in PACT funding

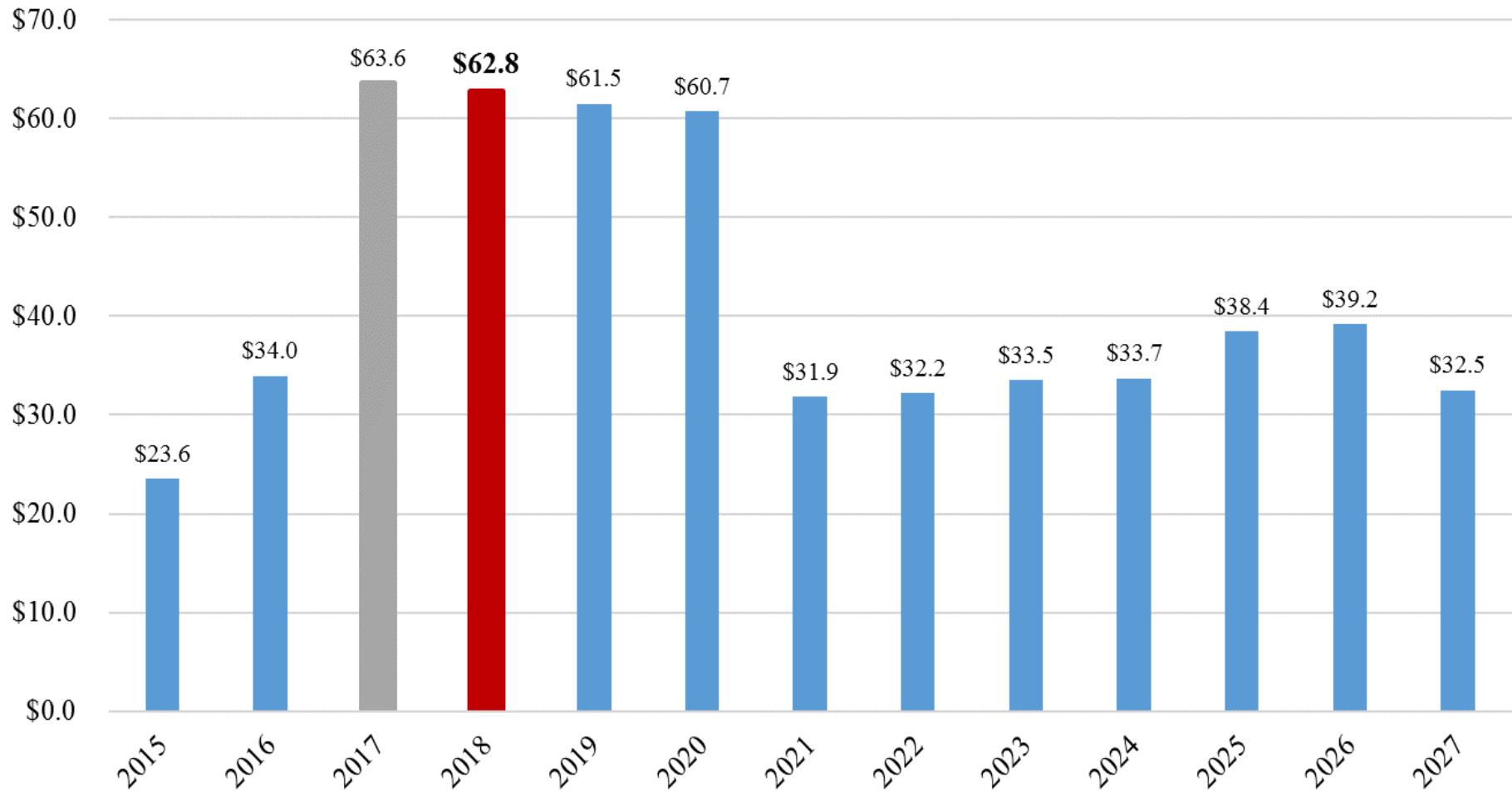
University Appropriations (in Millions)



- 2017 Higher Ed Budget – \$1.08 Billion – 4th highest, 4.1% increase over FY16

➤ Since 1975, average increase of 5.8%... Since 2000, average increase has been 2.4%

ETF Dollars to the PACT Program (in Millions)



- PACT settlement pays future tuition and mandatory fees at the Fall 2010 rate
 - 2021 decline is the result of the final class from the settlement

Veterans' Dependents Scholarship

| <u>Fiscal Year</u> | <u>Appropriation</u> | <u>Expenditures</u> | <u>Overage (Shortfall)</u> | <u>Cumulative Shortfall</u> |
|--------------------|----------------------|---------------------|--------------------------------|---------------------------------|
| 2008 | \$20,050,250 | \$19,048,234 | \$1,002,016 | \$1,002,016 |
| 2009 | \$25,015,470 | \$22,242,965 | \$2,772,505 | \$3,774,521 |
| 2010 | \$30,052,299 | \$30,051,608 | \$691 | \$3,775,212 |
| 2011 | \$36,106,057 | \$36,105,758 | \$299 | \$3,775,511 |
| 2012 | \$40,320,022 | \$40,320,022 | \$0 | \$3,775,511 |
| 2013 | \$43,264,915 | \$43,239,144 | \$25,771 | \$3,801,282 |
| 2014 | \$50,737,133 | \$50,735,959 | \$1,174 | \$3,802,456 |
| 2015 | \$52,674,123 | \$58,073,621 | (\$5,399,498) | (\$1,597,042) |
| 2016 | \$55,810,847 | \$70,810,147 | (\$14,999,300) | (\$16,596,342) |
| 2017E | \$65,000,000 | \$72,000,000 | (\$7,000,000) | (\$23,596,342) |
| 2018B | \$98,000,000 | \$80,000,000 | \$18,000,000 | (\$5,596,342) |
| 2019B | \$90,000,000 | \$85,000,000 | \$5,000,000 | (\$596,342) |

- AL Code Section 31-6-1, Veterans' scholarship covers the dependents of disabled military veterans
 - 10 undergraduate semesters at an Alabama institution (in-state tuition rate)
 - Covers tuition, books and mandatory fees (no room and board)
 - 1-year residency requirement at initial entry into military service

FY18 Budget Requests

- What Did Departments Request for FY 2018?

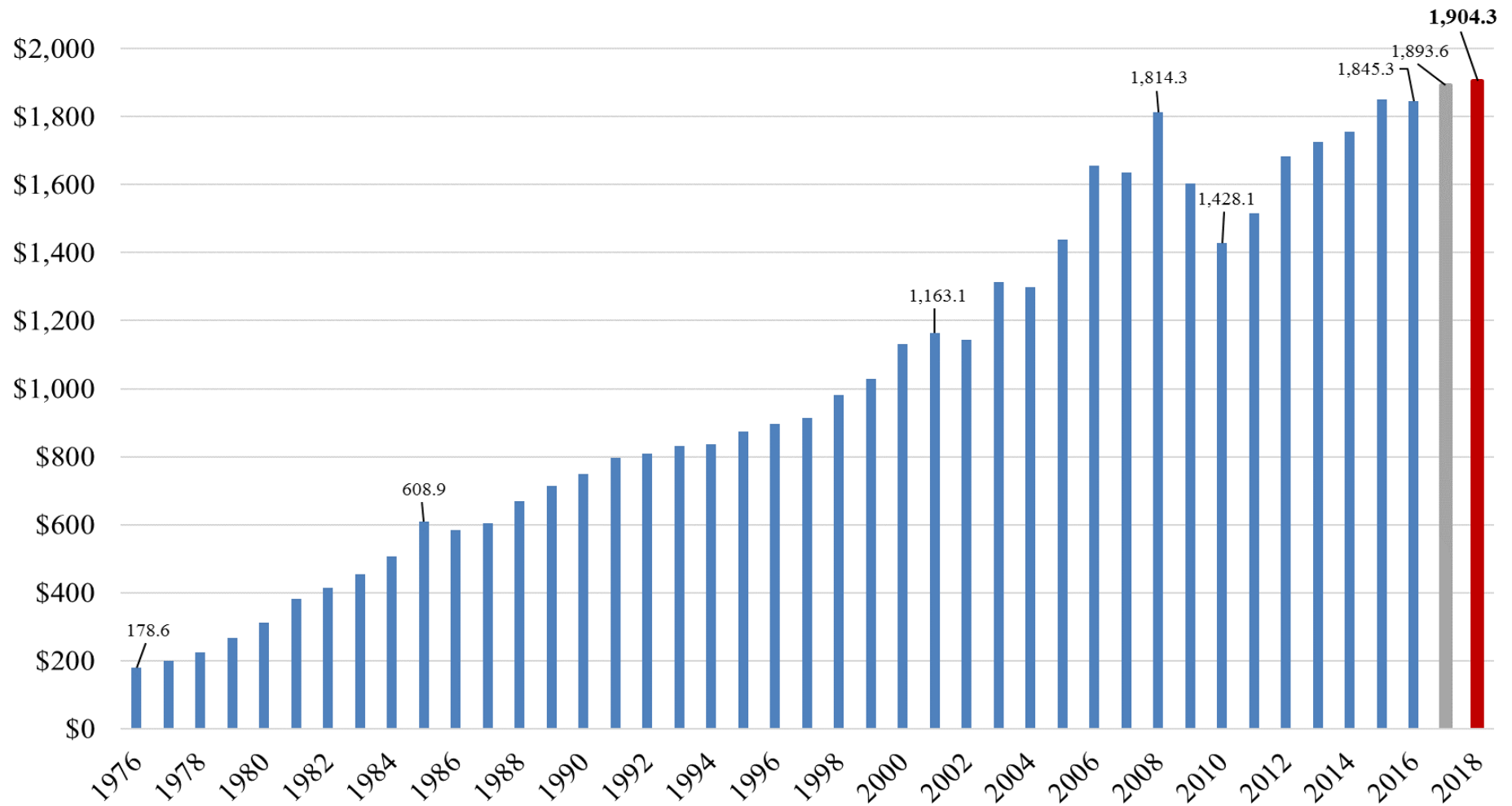
- **General Fund**

| | |
|---------------------|------------------|
| ❖ FY17 Budget | – \$1.82 Billion |
| ❖ FY18 Request | – \$2.20 Billion |
| ❖ FY18 Est. Revenue | – \$1.90 Billion |

- **Education Trust Fund**

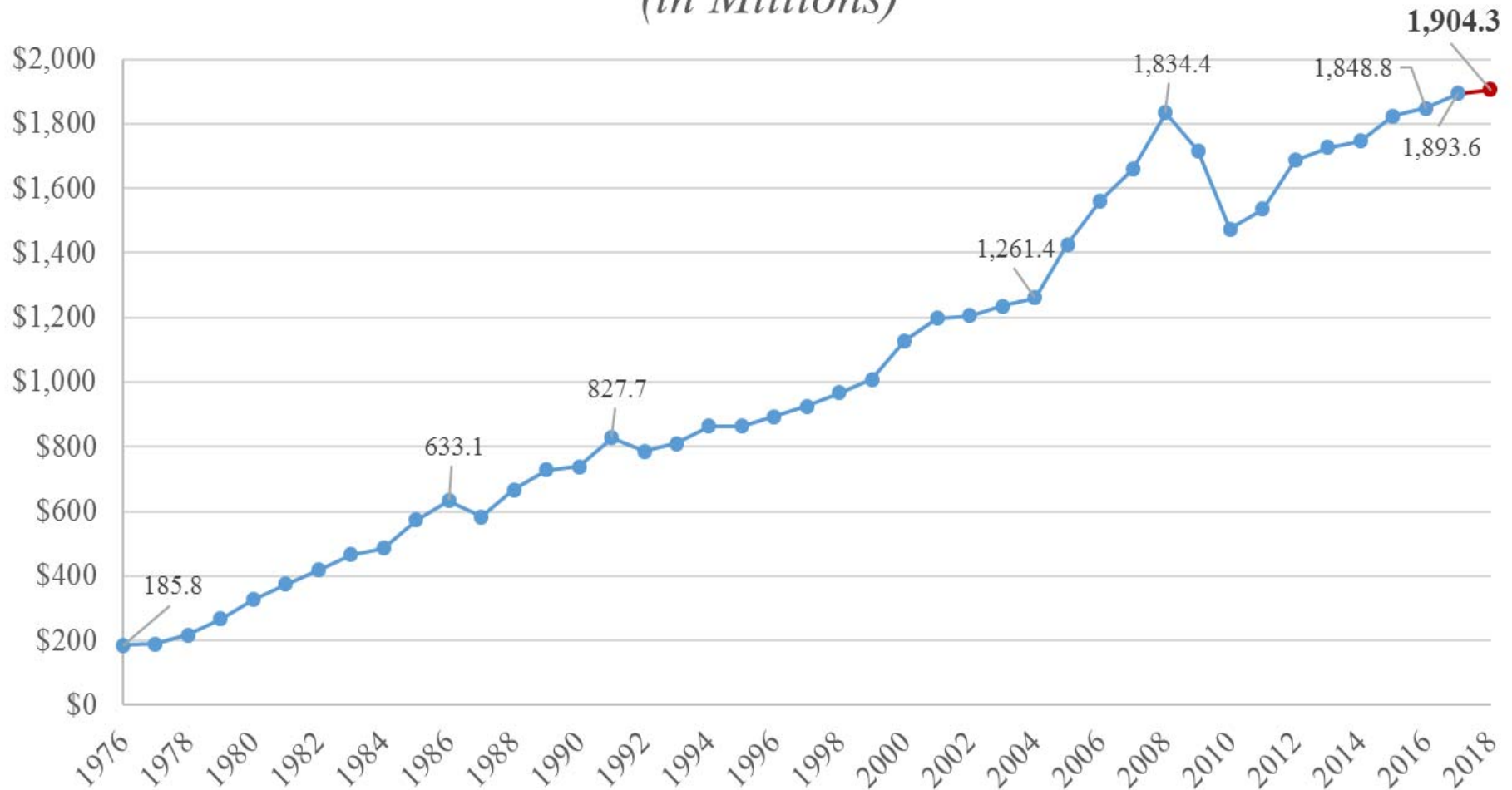
| | |
|---------------------|------------------|
| ❖ FY17 Budget | – \$6.33 Billion |
| ❖ FY18 Request | – \$6.80 Billion |
| ❖ FY18 Est. Revenue | – \$6.52 Billion |

Total General Fund Revenue (in Millions)



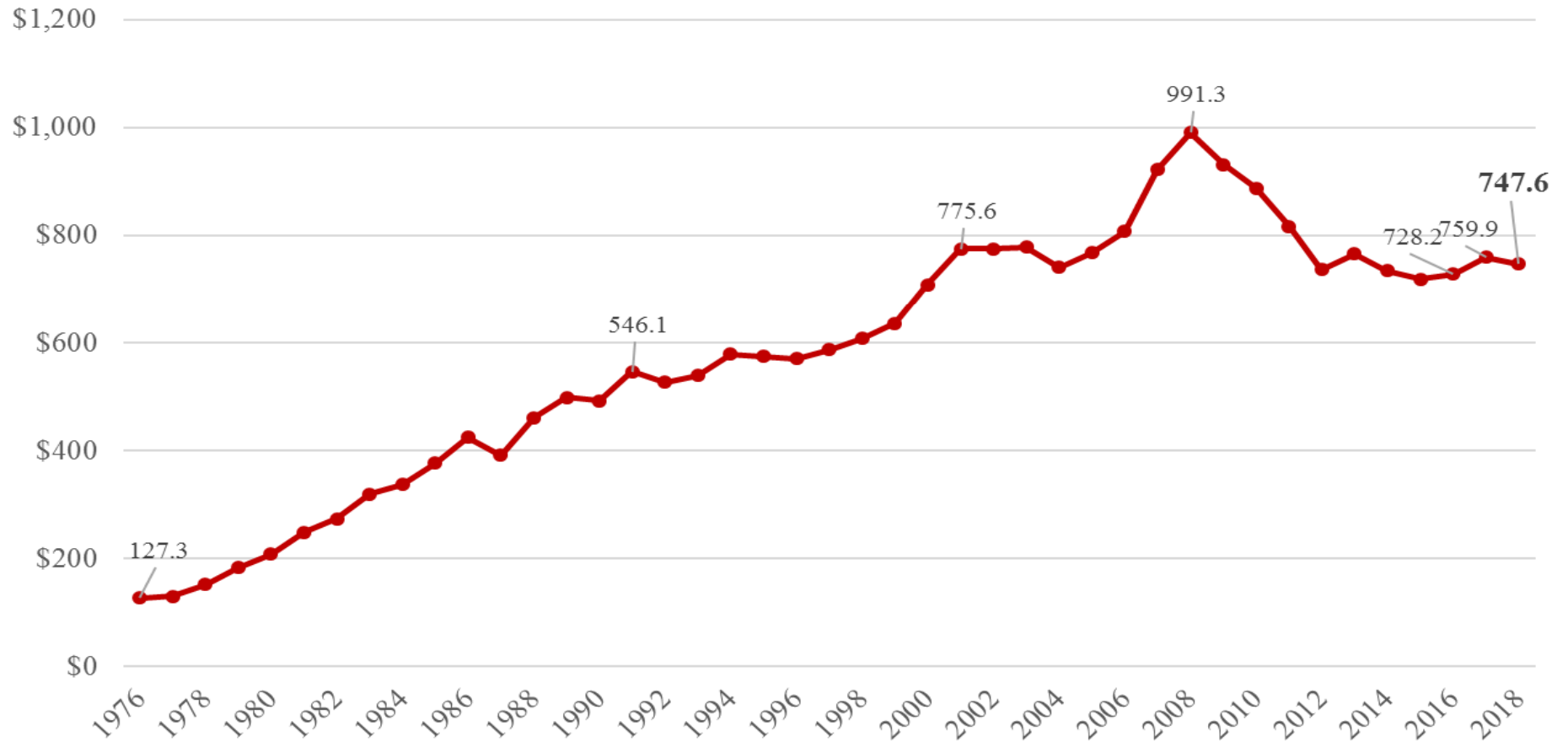
- 2018B GF Revenue – \$1.904 Billion – Largest GF Revenue est. in State history
 - FY18 is up 3.1% from FY16, \$50mm increase in FY17 & FY18 from Remote Sellers' Use Tax

General Fund Expenditures (in Millions)



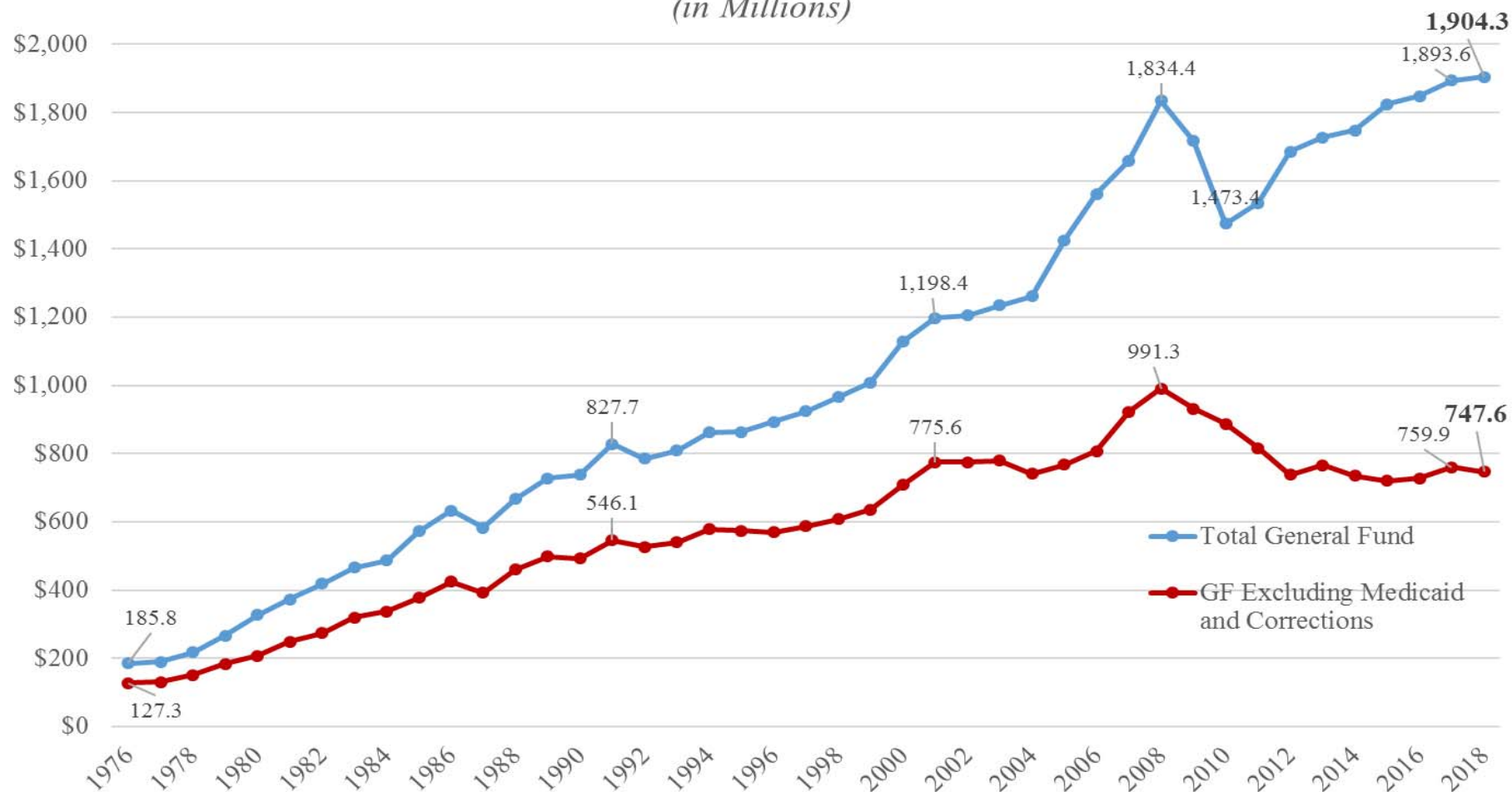
- 2018B GF Expenditures – \$1.90 Billion – Largest GF budget in State history
 - 2008B was originally \$2.0 Billion, subsequently prorated to \$1.83 Billion

General Fund Expenditures Excluding Corrections and Medicaid



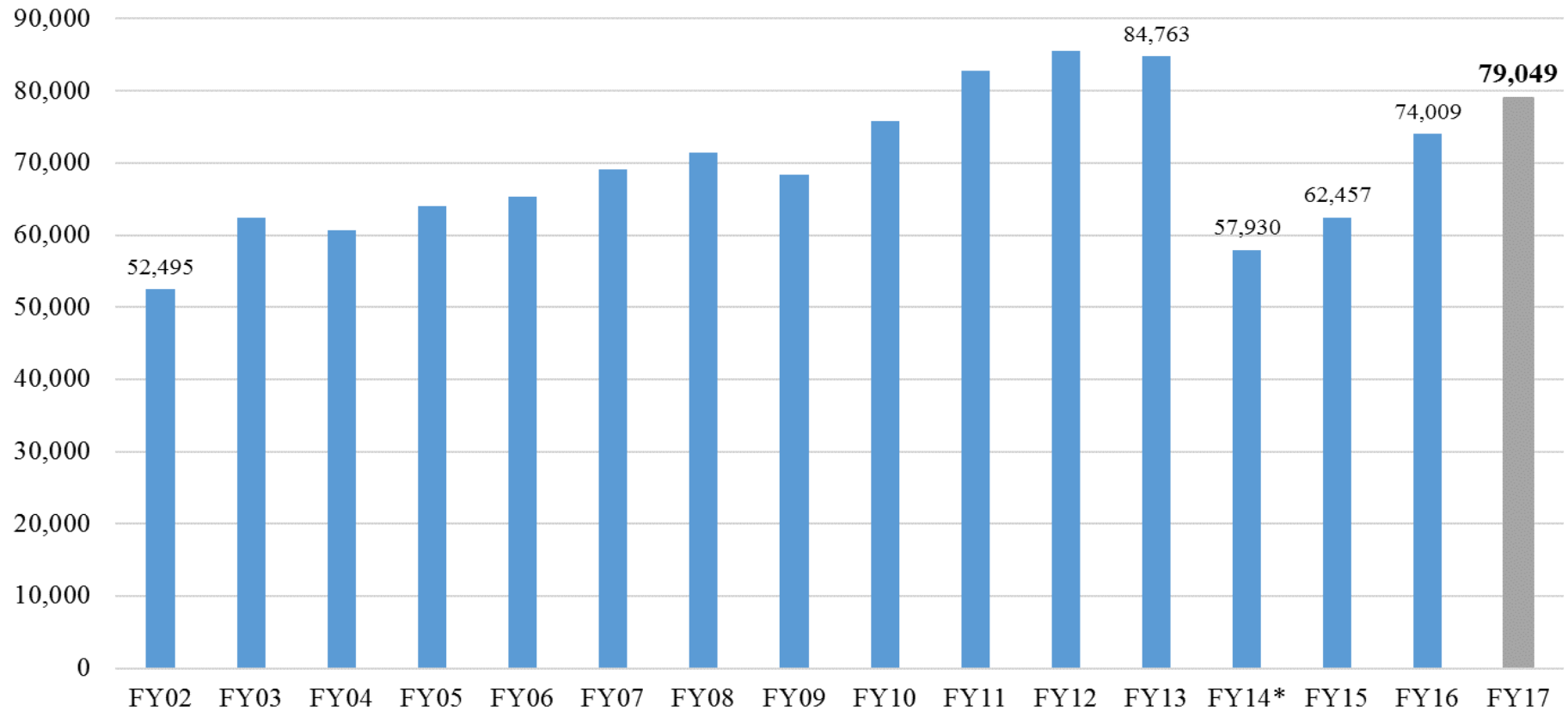
- 2018B GF excluding Medicaid & Corrections – \$747.6 million
 - -24.6% below highs of FY08 (average decline of -2.5% annually)

General Fund Expenditures Excluding Medicaid and Corrections (in Millions)



- 2018B GF Expenditures – \$1.90 Billion – Largest GF budget in State history
 - 2009-10 decline related to ARRA stimulus funds (offset to state GF contribution)

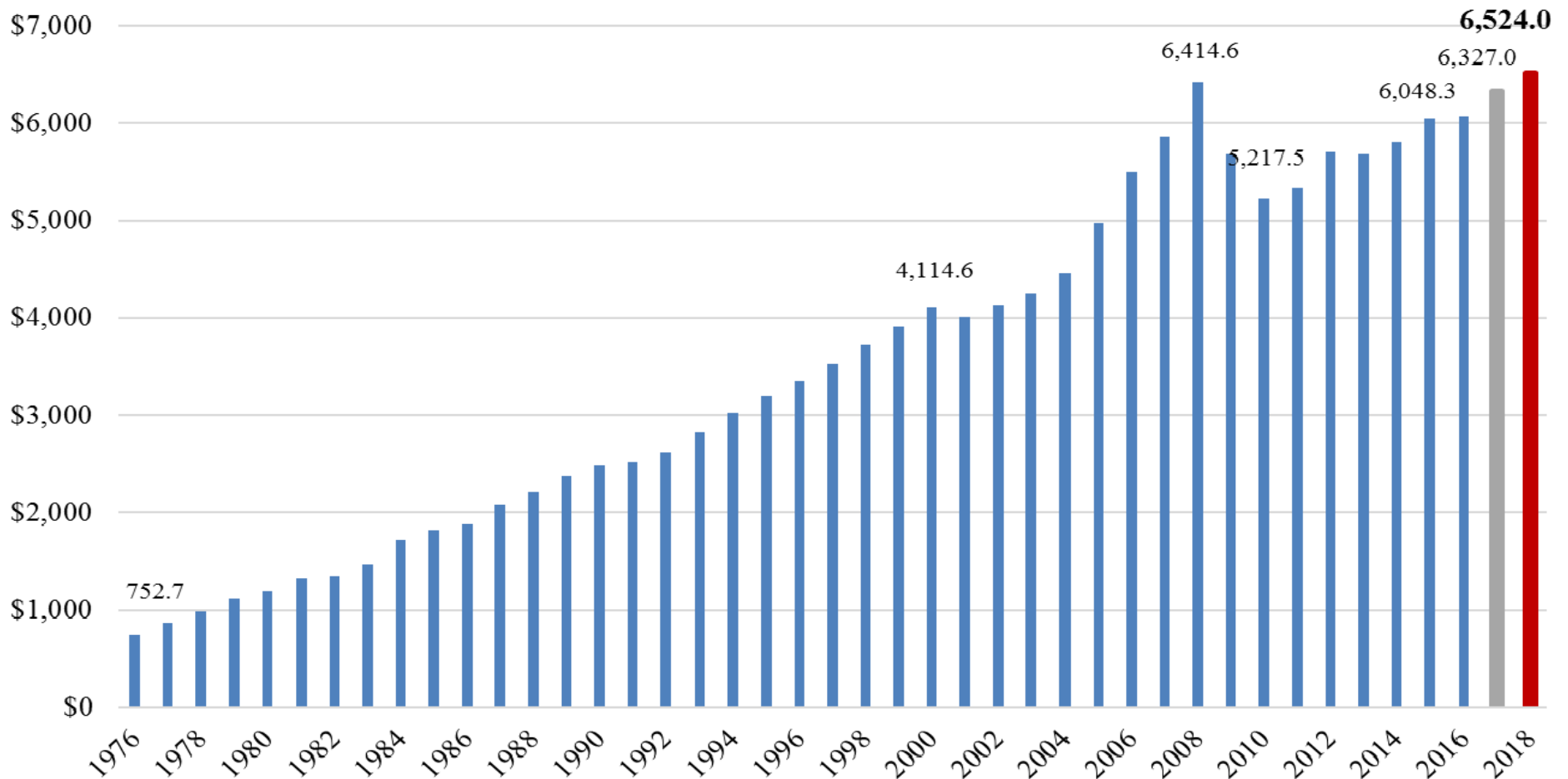
CHIP Enrollment



*FY14 - Transitioned 23,000 to Medicaid

- Current Federal Medical Assistance Percentage (FMAP) is 100% / 0% - ACA
- Patients' Choice Act – would potentially revert to historical 80% / 20% match
 - Proposed FY18 Budget assumes the continuation of 100% / 0% Federal matching

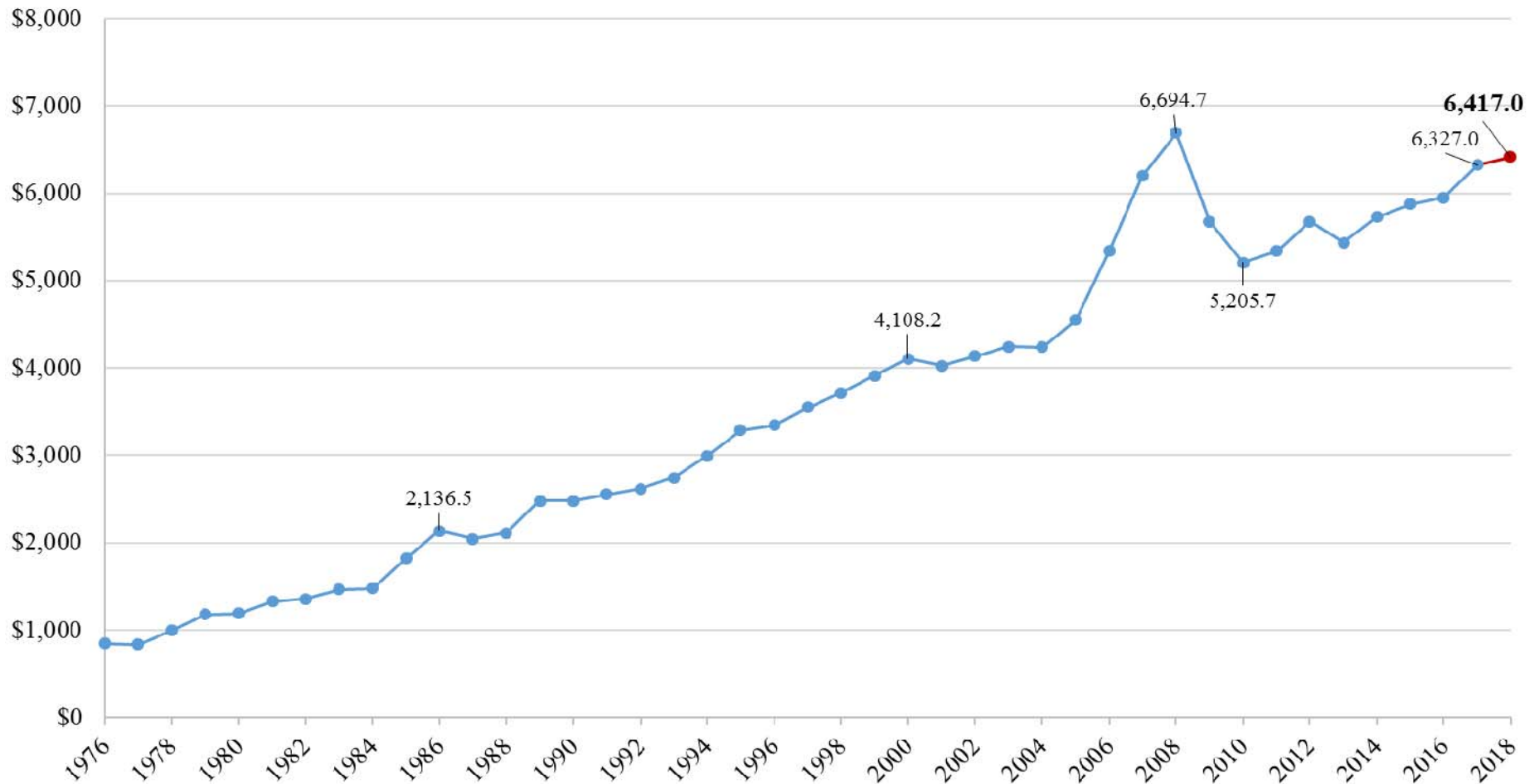
Historical ETF Revenue (in Millions)



- 2018B ETF Revenue – \$6.524 Billion – #1 Largest Ed. Revenue in State history

➤ Rolling Reserve Act will limit total spending to \$6.417 Billion (\$107 million to reserves)

Historical ETF Expenditures (in Millions)



- 2018B ETF Expenditures – \$6.4 Billion – 2nd largest Ed budget in State history
 - Just -4.1% from the highwater mark of \$6.695 Billion in 2008

2018 Budget – Governor’s Proposal

- **General Fund (GF):**

- \$1.88 Billion – Estimated Revenues (up \$56mm or 3.2% over PY)

- \$41.4 million – Beginning Balance

- \$1.924 Billion** – Total Available Budget

- Most Agencies are Level-Funded \$1.845 Billion

- No decreases to FY17 Budgets

- 4.0% COLA for State Employees \$19.0 million

- SEIB Fully-Funded \$8.5 million

- Medicaid \$23.0 million

- Other Increases \$5.8 million

- Reserves for FY19 \$20.0 million

TOTAL \$1.924 Billion

2018 Budget – Governor’s Proposal

■ Education Trust Fund (ETF):

- \$6.524 Billion – Total Available Revenue (up 3.1% over prior year)
- \$6.417 Billion** – ETF Appropriation Cap (up \$90mm or 1.4% over PY)
- \$107.0 million – Reserves (\$64mm to BSF, \$43mm to A&T Fund)*

- | | | |
|---|------------------------|---------------|
| ■ K-12 | \$4.421 Billion | (69.0%) |
| ➤ PEEHIP Fully-Funded | \$31.9 million | |
| ➤ Foundation Program (751.3 fewer students) | (\$26.4 million) | |
| ➤ Pre-K | \$20.0 million | |
| ➤ Mental Health | \$11.0 million | |
| ■ Higher Education | \$1.623 Billion | (25.3%) |
| ➤ 1.0% O&M Increase | \$10.1 million | |
| ➤ Veterans’ Scholarship for Dependents | \$26.5 million | |
| ■ Other Education | <u>\$366.8 million</u> | <u>(5.7%)</u> |

TOTAL

\$6.417 Billion



Questions?

www.finance.Alabama.gov